UNITED BULGARIAN BANK AD

ANNUAL REPORT 2019

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Independent Auditors' Report

To the Shareholders of United Bulgarian Bank AD

Report on the audit of the separate and consolidated financial statements

Our opinion

We have audited the separate and consolidated financial statements of United Bulgarian Bank AD (the "Bank" and its subsidiaries (together - the "Group") which comprise the separate and consolidated statement of financial position as at 31 December 2019, and the separate and consolidated statement of profit or loss, the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2019, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for opinion

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

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

Independence

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Our audit approach

Overview

- Overall Bank and Group materiality: BGN 8,577 thousand, which represents 5% of the separate and 5.1% of the consolidated profit before tax

- We conducted audit work at two reporting units in Bulgaria.
- Our audit scope addressed 99.9% of the Group's assets and 97.4% of the Group's absolute value of underlying profit before tax.

- Estimation uncertainty with respect to the impairment allowance for loans and advances to customers

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

Materiality

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

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

Overall Bank and Group materiality	BGN 8,577 thousand
How we determined it	5% of the separate and 5.1% of the consolidated profit before tax
Rationale for the materiality benchmark applied	We applied profit before tax as a benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by the users of the separate and consolidated financial statements and it is a generally accepted benchmark.

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Grant Thornton

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Estimation uncertainty with respect to the impairment allowance for loans and advances to customers Refer to Note 13 "Loans and advances to customers" The appropriateness of the impairment allowance for loans and advances to customers requires significant judgement by management. Measuring impairment allowance for loans and advances to customers under IFRS 9 requires an assessment of the 12-month and lifetime expected credit losses and assessment of significant increases in credit risk or whether loans and advances to customers are in default. As at 31 December 2019, the gross loans and advances to customers amounted to BGN 6,082 million on a separate basis and BGN 6,087 million on a consolidated basis and the related impairment allowance at that date amounted to BGN 349 million on a separate basis and BGN 352 million on a consolidated basis. The assessment of significant increase in credit risk, the assessment of whether loans and advances to customers are in default and the measurement of 12-month or life time expected credit loss are part of the Bank's and the Group's estimation process and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating significant increase in credit risk, default triggers, the financial condition of the counterparty, the expected future cash flows or the value of collateral. The use of different modelling techniques, scenarios and assumptions could lead to different estimates of impairment charges on loans and advances to customers. As the loans and advances represent significant part of the Bank's and the Group's total assets and given the related estimation uncertainty on impairment charges, we consider this as a key audit matter.	Our audit procedures included an assessment of the overall governance of the credit and impairment process of the Bank and the Group, including 12-month and lifetime expected loss modelling processes. We have assessed and tested the design and operating effectiveness of the controls within the lending and provisioning processes. For loan impairment allowances determined on an individual basis, we have performed, for a sample of credit exposures, a detailed review of loans granted by the Bank and the Group. We challenged the default identification triggers and quantification of expected future cash-flows (recoverable amounts) determined based on valuation of underlying collateral and estimates of recovery on default. For the 12-month and lifetime expected credit loss impairment allowance, we challenged the significant increase in credit risk triggers and the macroeconomic scenarios and tested the underlying models, including the Bank's and the Group's model approval and validation process. We also assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the International Financial Reporting standards as adopted by the European Union.

How we tailored our Group audit scope

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

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

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

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

Management is responsible for the other information. The other information comprises the annual separate and consolidated activity report, the separate and consolidated corporate governance statement and the separate and consolidated non-financial declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate and consolidated financial statements and our auditors' report thereon.

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

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

Additional matters to be reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the annual separate and consolidated activity report, the separate and consolidated corporate governance statement and the separate and consolidated non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines regarding the new and enhanced auditor reporting and communication by the auditor" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and where applicable art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

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

Based on the procedures performed, in our opinion:

a) the information included in the annual separate and consolidated activity report referring to the financial year for which the separate and consolidated financial statements have been prepared is consistent with those separate and consolidated financial statements.
b) the annual separate and consolidated activity report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) the separate and consolidated corporate governance statement for the financial year, for which the separate and consolidated financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and where applicable Art. 100(m), paragraph 8 of the Public Offering of Securities Act.
d) the separate and consolidated non-financial declaration for the financial year, for which the separate and consolidated financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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 Audit Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the implementation of joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on other legal and regulatory requirements

Statement in relation to Art. 33 of Ordinance 38/2007 issued by the Financial Supervisory Commission (FSC) in relation to the requirements on the activity of investment intermediaries and Art. 11 of Ordinance 58/2018 issued by FSC in relation to the requirements for protection of the clients' financial instruments and cash, for product management, and for the providing or receiving of remuneration, commissions and other monitory or non-monetary benefits.

Based on the audit procedures performed and the understanding of the Bank's activity, in the course and context of our audit of the separate financial statements, we identified that the established organization implemented for safeguarding of customers' accounts is in accordance with the requirements of Art. 28-31 of Ordinance 38 and Art. 3-10 of Ordinance 58 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

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

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

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2019 by the general meeting of shareholders held on 17 December 2019, for a period of one year. PricewaterhouseCoopers Audit OOD was first appointed as an auditor of the Bank and the Group on 14 June 2017.
- Grant Thornton OOD was appointed as a statutory auditor of the separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2019 by the general meeting of shareholders held on 17 December 2019 for a period of one year. „Grant Thornton" OOD was first appointed as an auditor of the Bank and the Group on 6 December 2017.
- The audit of the separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2019 represents the third of total uninterrupted statutory audit engagements for that entities carried out by PricewaterhouseCoopers Audit OOD.
- The audit of the separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2019 represents the third of total uninterrupted statutory audit engagements for that entities carried out by Grant Thornton OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's and the Group's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art.64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank and the Group.

- For the period to which our statutory audit refers, PricewaterhouseCoopers Audit OOD has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services in the total amount of BGN 202 thousand which have not been separately disclosed in the separate and consolidated financial statements of the Bank and the Group:
    - Limited reviews of the consolidated group reporting forms, prepared by the Bank in accordance with KBC Group accounting manual for the periods ended 31 March 2019, 30 June 2019 and 30 September 2019;
    - Audit of the consolidated group reporting forms, prepared by the Bank in accordance with KBC Group accounting manual for the year ended 31 December 2019;
    - Report in accordance with the requirements of Art. 76 (8) by the Law on Credit Institutions and Regulation 14 by BNB from 4 February 2010 for the year ended 31 December 2019 (jointly with Grant Thornton OOD);
    - Participation in a seminar organised by PricewaterhouseCoopers Audit OOD.
- For the period to which our statutory audit refers, Grant Thornton OOD has provided to the Bank and its controlled undertakings, in addition to the statutory audit, the following services in the total amount of BGN 6 thousand which have not been separately disclosed in the separate and consolidated financial statements of the Bank and the Group:
    - Report in accordance with the requirements of Art. 76 (8) by the Law on Credit Institutions and Regulation 14 by BNB from 4 February 2010 for the year ended 31 December 2019 (jointly with PricewaterhouseCoopers Audit OOD).

For PricewaterhouseCoopers Audit OOD:

Jock Nunan
Procurist

Tsvetana Tsankova
Registered auditor responsible for the audit
9-11, Maria Luiza blvd.
1000 Sofia, Bulgaria

Date: 14-04-2020

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085 ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

For Grant Thornton OOD:

Mariy Apostolov
Managing partner

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

Gergana Mihaylova
Registered auditor responsible for the audit
26, Cherni vrah blvd.,
1421 Sofia, Bulgaria

Date: 14-04-2020

ANNUAL SEPARATE AND CONSOLIDATED ACTIVITY REPORT OF UNITED BULGARIAN BANK AD (UBB) As of 31.12.2019 (In accordance with the Accountancy Act)

1. REVIEW AND DESCRIPTION OF THE ACTIVITY

1.1. Development and operating results of the entity

In 2019 the registered capital of United Bulgarian Bank AD (UBB) is BGN 93 838 321 divided into 93 838 321 ordinary registered dematerialized voting shares with a nominal value of BGN 1 each. UBB offers a wide range of bank services within the licence for conducting banking activities granted by the Bulgarian National Bank to domestic and foreign clients through the Headquarters Office in Sofia and 183 branches, 16 business centers and 71 remote work places across the country all serviced by 2,801 employees (2018: 2,921) and namely:

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

At 31 December 2019 the Bank is a sole owner of UBB Factoring EOOD, UBB Asset Management AD, UBB Insurance Broker AD, UBB Centre Management EOOD and East Golf Properties EAD. UBB also has its associated company named Druzhestvo za Kasovi Uslugi AD.

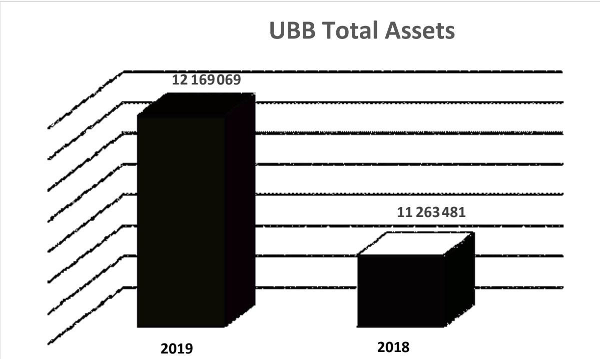
This Report provides information about the activity of the Bank and its subsidiaries hereinafter referred to as UBB.

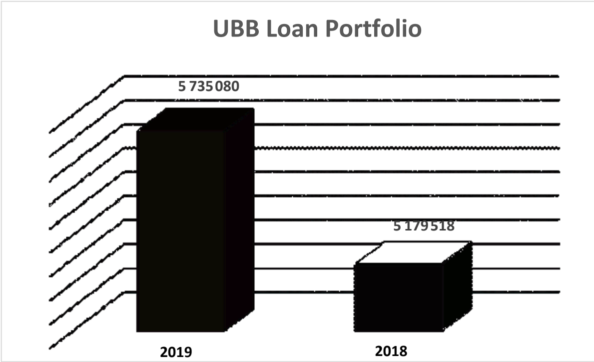
The Bank has a two-tier management system – Management Board and Supervisory Board. All of the Management Board members are Executive Directors of UBB except for Mrs. Hristina Filipova who is Procurator.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

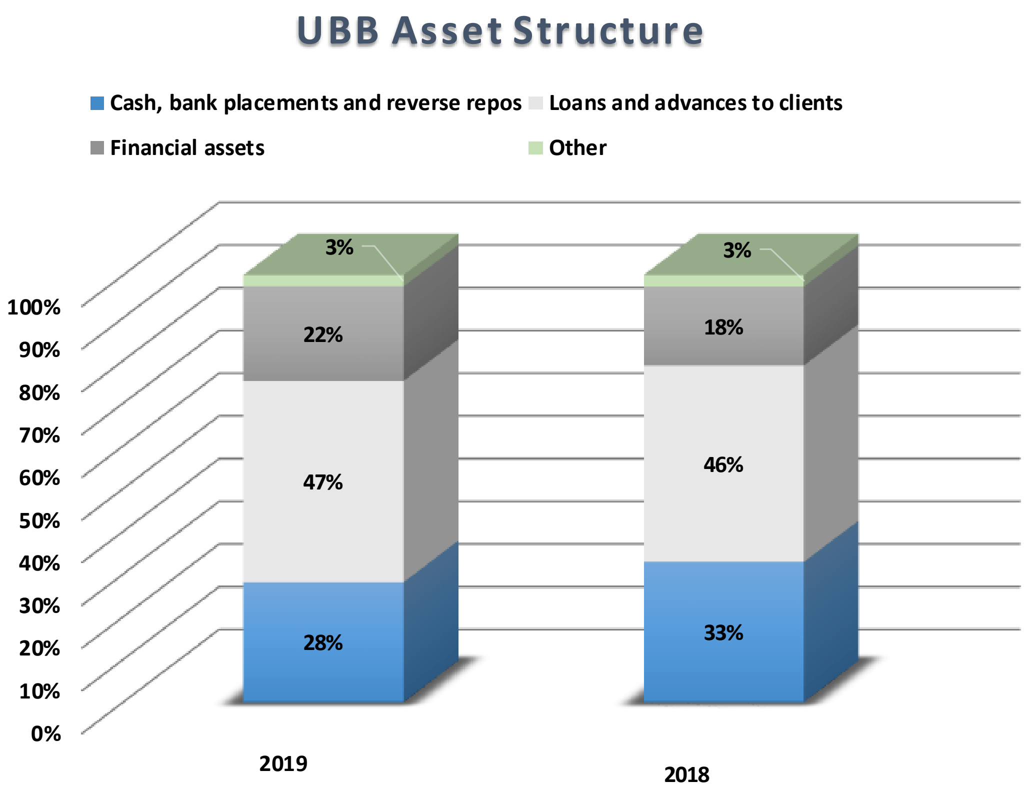
1.1. Development and operating results of the entity (continued)

During the last year UBB managed to achieve a significant increase in its assets strengthening its positions as one of the most dynamically growing bank groups in the Bulgarian market. In 2019 the Group's total assets grew by more than 8% compared to the end of 2018 reaching BGN 12 169 milion (2018: BGN 11 263 milion). The net book value of loans and advances to clients increased by 10.7% (or BGN 555.6 milions) driven primarily by the significant volume of new business.





Asset structure indicates that Loan and advances to clients prevail, while financial assets, which are mainly debt securities at amortized costs increase by impressive 29.3% (BGN 608.8 milion). The latter is a result of the acquisition of mainly Bulgarian Government Debt securities throughout the year.



At 31 December 2019 the UBB total liabilities on consolidation base amounted to BGN 10 790 million (2018:BGN 9 871million). Growing by 9.3% compared to the previous year mainly contributed by an increase of cutomer's deposits by 7%.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

The 2019 net profit of the Bank/UBB amounted on individual base BGN 154.8 million and on consolidation base BGN 150.9 million on consolidation base. The decline vs. previous year (-21.3 milion on individual and -21.1 milion on consolidated basis) is caused mainly by lower Net interest income, driven by the continuing backdrop of yield on loans and other financial instruments, as a consequence of the very competitive local market and challenging macro environment. The net fee and commissions income slightly drops 0.4% (or BGN 0.5 milions) for the Bank and 1.8% (or BGN 2 milion) for UBB.
The operating expenses declined by BGN 10.8 million (4.7%) for the Bank and 10.6 million (4.8%) for UBB compared to 2018, mainly driven by the positive effects from Branch network colocation.

1.2. Liquidity

UBB manages its assets and liabilities in a manner guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay both in a normal environment and under stress conditions. UBB invests mainly in liquid assets and maintains an average of 222% Liquidity Coverage Ratio (LCR). Also during the year UBB maintained values of the NSFR above 100% well above the minimum level recommended by the European regulators.

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

Trends or risks which may influence the liquidity of the Bank/Group for 2020

In the light of recent events in March 2020 (COVID-19 pandemic) the expectations are for preserving the stability of the financial parameters, keeping the quality of the loan portfolio and achieving adequate for the current situation profit from the activity preserving sustainable liquid and capital buffers.

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

Reverse stress test with target of 115% LCR was performed based on a combination of events such as increase of retail outflow (stable up to 10% vs. 5%), increase of corporate outflow (stable up to 40% vs.25%) and fully usage of undrawn credit lines on the one side and decrease by 50% of inflow from fully performed loans and 20% haircut of market value of liquid securities on the other.

The developments at the start of 2020 (such as the COVID-19 pandemic) will likely outdate the current APC scenarios. Although they put a serious stress on the market, so far they have not affected UBB's liquidity and funding adequacy. Our stress tests currently indicate that UBB can withstand such adverse evolutions.

Lack or existence of significant shortage of liquid funds

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

1.3. Capital resources

The Bank has sufficient equity to ensure adequate equity coverage for its risk assets.
The UBB equity on solo level at 31 December 2019 as per accounting data amounts to BGN 1 376 690 thousand (2018: BGN 1 386 814 thousand) and as per the requirements of Basel 3 it amounts to BGN 1 211 711 thousand (2018: BGN 1 206 861 thousand).
The Group has sufficient equity to ensure adequate equity coverage for its risk assets.
The Group's equity at 31 December 2019 as per accounting data amounts to BGN 1 378 616 thousand (2018: BGN 1 392 807 thousand) and as per the requirements of Basel 3 it amounts to BGN 1 217 312 thousand (2018: BGN 1 210 358 thousand).
The following table presents the capital adequacy indicators of the Group which reflect its stability (solvency).

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)
1.3. Capital resources (continued)

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

Ratio	Separate		Consolidated	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
General capital adequacy ratio (%)	19.04%	21.52%	19.15%	21.51%
Tier-I capital adequacy ratio (%)	19.04%	21.52%	19.15%	21.51%

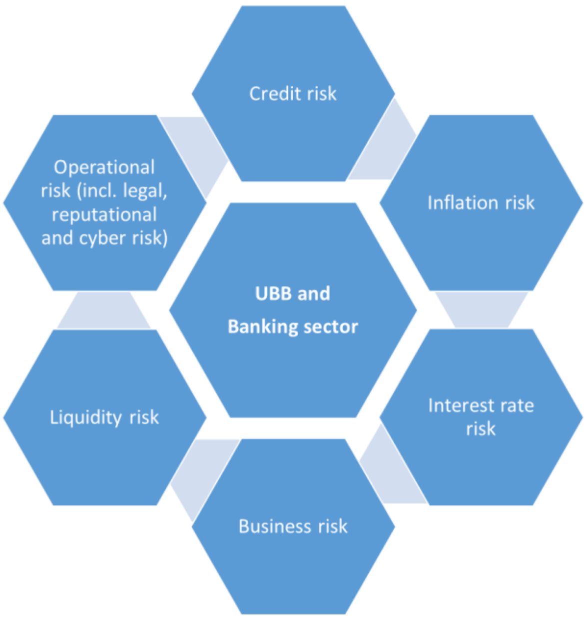
Trends, events or risks which are likely to have a material effect on the operations of UBB

The effects of weaker-than-expected economic growth in the euro area expectations of a long period of low interest rates in the euro area and Bulgaria as well as the ever-increasing competition in the banking sector especially in the area of lending are the main factors influencing the prospects for development of UBB AD and of the banking system as a whole.
Expectations for slowing economic growth both globally and in Bulgaria require thorough and effective analysis and comprehensive risk monitoring. Overall projections are for reasonable growth in loans and attracted funds taking into account the uncertainty and volatile economic outlook.

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

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

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



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

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.3. Capital resources (continued)

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

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

Regarding the price (interest) risk the bank aims at maintaining a balance between the fixed-interest-rate assets and liabilities and the floating-interest-rate ones. The bank also uses derivative financial instruments to hedge the interest rate risk.
The credit risk is managed by applying strict and conservative principles for securing loans and measuring collateral as well as by setting aside allowance for impairment in accordance with the IFRS 9.

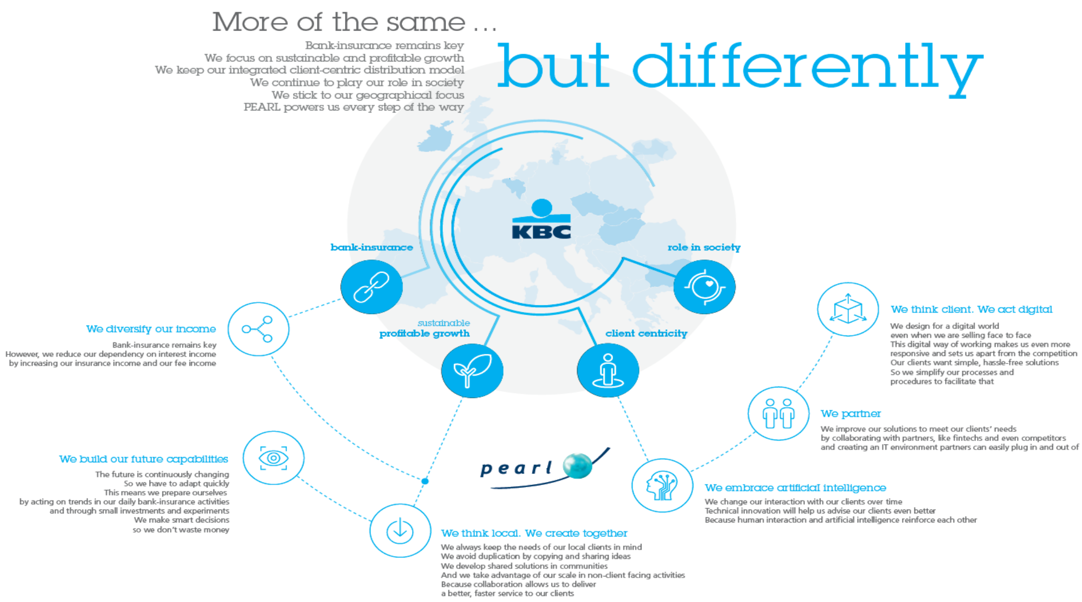
1.4. Strategic development of UBB

In 2019 UBB successfully continued to fulfil its long-term strategy to create and develop innovative and digital banking products and services, tailored to the expectations and everyday needs of the clients and accessible at all times and through more channels. The aim of UBB, as well as of the KBC Group is to develop products available through all sales' channels, whereas the main focus continues to be the constant of the mobile banking.
With regards to the targeted segments, an increasingly focal role in the bank's client-oriented strategy is dedicated to the adolescents and young people, while the ambition of UBB is to continue to be a preferred partner for clients from the following sub-segments – Retail (mass affluent and affluent clients, premium clients), small and medium-sized enterprises and middle-sized and large corporate clients, in order to balance between growth and profitability. As a needs-oriented and subordinated to the dynamics of the real-life experience of its clients, the bank not only establishes its position of first choice for banking and insurance, but also builds on its digital channels – mobile banking, and website, with complementary offline service through the expansion the number of extended working hours branches of the bank during all weekdays days, including on Saturdays.
In addition, the Contact center for clients actively expands the scope of its activities, complementing it with sales programs and initiatives for the customer satisfaction research.
Again, looking at the digital, in 2019 UBB fully upgraded its corporate site, turning it into a real sales' channel, and in the field of mobile banking the bank launched a digital overdraft.
With regard to the strategy for building effective ecosystems with potential, in 2019 UBB expanded its partnership with the POC Doverie, as in the entire branch network of the bank clients can receive information and choose their universal pension fund and voluntary pension fund.
We implement our development strategy within the framework of strict risk control, capital and liquidity management.
Sustainability is intertwined in our corporate strategy - embedded in its four pillars and in our daily activities. Thus we are able to meet the expectations of all stakeholders not only today, but also with a perspective for the future.
For this reason, it is important for us to:
• Operate without external support and
• Preserve the trust of our clients, investors, government and supervisory institutions, shareholders and employees.
Sustainability is only possible, if we also maintain public confidence, which means that we must act responsibly, by:
• Being constantly aware of the impact of our activities on society
• Meeting societal needs and expectations in a balanced and transparent way.
This is why UBB focused its efforts toward:
• Increasing its positive impact on society
• Mitigating the negative impact on society
• Promoting responsible behaviour among employees

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.4. Strategic development of UBB (continued)

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



We encourage our employees to behave responsibly and be oriented towards results and customers. In addition, we strive to build sustainable relationship with our clients – individuals, small and medium-sized enterprises and large corporate companies in Bulgaria. We achieve it by constantly listening to their feedback through immediate communication, as well as through surveys and polls. We respond to the identified needs not only by creating and improving the product portfolio, but also by establishing the wide variety of distribution channels.
Last but not least, we focus our efforts on the sustainable development of the different communities around us, as we believe that through genuine attitude and care for them, we become real and responsible part of their development and the life of our customers.

1.5. Expected financial results

UBB's financial result is formed mainly of interest income, fees and commissions. A moderate growth of the bank's/group's lending and provision of attractive deposit services may be expected during the financial year of 2020 with the focus being placed on the targeted segments of UBB (mass affluent and affluent Retail clients small and medium-sized enterprises and average-in-size corporate clients). This growth will be supported by improving and simplifying business processes and offering new products and guarantee schemes under European programs. The non-performing loans will remain under control and it is expected that impairment expenses will remain below the levels achieved after the financial crisis. The bank system's over-liquidity and very competitve banking market will continue to exert pressure on interest margins. The negative interest rates on the inter-bank market will also result in decrease in yields on deposits placed and on investments in government securities.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

At the end of 2019 the participation of the members of the Supervisory and Management Boards in commercial companies as unlimited responsible partners, the ownership of more than 25 per cent of the capital of another company, as well as their participation in the management of other companies or co-operatives, such as procurators or board members is, as follows:

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

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

KBC Group NV	Member of the Executive Committee
KBC Group NV - Branch Bulgaria	Senior General Manager; Branch Manager
K&H Bank Zrt.	Chairman of the Board of Directors; Non-executive director
KBC Asset Management NV	Chairman of the Supervisory Board; Non-executive director
DZI Life Insurance Jsc	Chairman of the Supervisory Board; Non-executive director
DZI - GENERAL INSURANCE JSC	Chairman of the Supervisory Board; Non-executive director
K&H Biztosító Zrt	Chairman of the Supervisory Board; Non-executive director
KBC Bank NV	Member of the Board of Directors; Executive director
KBC Verzekeringen NV	Member of the Board of Directors; Executive director
KBC Bank NV, Dublin Branch	Chairman of the Supervisory Board
ČSOB Poist'ovňa a.s.	Member of the Supervisory Board
KBC Bank Ireland Plc	Chairman of the Board of Directors; Non-executive director
Československá Obchodná Banka a.s.	Chairman of the Supervisory Board; Non-executive director
KBC Focus Fund NV	Chairman of the Board of Directors; Non-executive director
KBC Securities NV	Chairman of the Board of Directors; Non-executive director

- **Willem Hueting – Member of The Supervisory Board**

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

KBC Group NV Belgium	Senior General Manager
KBC Group NV - Branch Bulgaria	Branch manager

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

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

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

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

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

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

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

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

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.7. Management Board of UBB AD

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

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

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

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

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

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

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

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

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

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

- UBB Asset Management AD - Member of the Board of Directors
- Belgium-Bulgaria-Luxemburg Business Club – non-profit association – Member of the Executive Board
- German – Bulgarian Chamber of Industry and Commerce – non-profit association – Chairman of the Expert Committee ‘Banking and Insurance’.

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

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

- UBB Interlease EAD - Chairman of the Board of Directors
- UBB Asset Management AD - Member of the Board of Directors
- UBB Insurance Broker EAD - Chairman of the Board of Directors

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.7. Management Board of UBB AD (continued)

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

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

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

- **Jan Swinnen – Member of the Management Board and Executive Director**

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

- UBB Asset Management AD - Member of the Board of Directors.

- **Hristina Filipova – Procurator**

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

1.8. Contracts under Article 240b of Commercial Act concluded in 2019

In 2019 the members of the Supervisory and of the Management Boards of the Group had not concluded contracts with the Group beyond its ordinary activity or such which although concluded as part of the ordinary activity of the Group deviate materially from market conditions.

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

In 2019 the following personal changes were made in the composition of the Management Board of the Bank:
By decision of the Supervisory Board of UBB AD under Minutes No. 22 of 28.11.2018 Mr. Frank Jansen was released as a Management Board Member of UBB AD and Mrs. Desislava Simeonova was elected as a new member of the Management Board. The change was officially registered in the Commercial Register on 01.02.2019. The number of members of the Management Board was not changed.

In 2019 there were no changes in the composition of the Supervisory Board of the Bank, but such a change is expected in the beginning of 2020.
With a decision of the General Meeting of Shareholders from 17.12.2019 Mr. Willem Hueting was released as a Supervisory Board Member and Mr. Barak Chizi was elected as a new member of the Supervisory Board of UBB AD. The change will officially be published in the Commercial Register in January 2020.
One more change in the composition of the Supervisory Board is expected in the beginning of 2020. It is with respect to the requirement of Art. 10a of the Credit Institutions Act for having at least 1/3 independent members in the composition of the Supervisory Board. For this purpose 2 (two) new members of the Supervisory Board will be appointed by the General Meeting of Shareholders, who will meet the requirements for independence according to Art. 10a of the Credit Institutions Act. The number of the Supervisory Board members will be increased from 4 (four) to 6 (six).

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

The amount of the remuneration of the members of the management and supervisory bodies of UBB for the financial year 2019 is BGN 3 228 thousand (2018: BGN 3 258 thousand).

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

Although the Articles of Association of the Bank does not limit the rights of the members of the Management and Supervisory Boards of UBB AD to acquire shares and bonds of the credit institution in 2019 the members neither acquired, nor held or transferred shares and bonds of UBB.

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

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Bank considers this outbreak to be a non-adjusting post balance sheet event. The outbreak and global spread of the coronavirus will exert downward pressure on our results in 2020 (but not have any impact on our financial position at year-end 2019). As a measure to respond to the COVID crisis and to the economic consequences, the Association of the Bulgarian Banks proposed to the Bulgarian National Bank support measures through a private moratorium for companies and individuals affected by the crisis that are not treated as non performing under Regulation 575.

Those measures aim to support our clients that face liquidity shortages and difficulties in timely payment of their financial and other commitments by providing temporary postponement (up to 6 months) of repayment of their obligation. Given the new government, regulatory and/or sector-related measures are being taken every day, it is impossible at this stage to make a reliable estimate of what the consequence swill be for the global economy and, more specifically, for our Bank. We are, of course, closely monitoring the situation. As always, we are adopting a cautious and conservative approach, even though our solid capital and liquidity positions are such that we are able to withstand extreme scenarios.

The European economy staged a gradual general recovery during 2019, making the outlook for 2020 somewhat brighter. Unfortunately, the outbreak and global spread of the coronavirus in 2020 changed this outlook. It is now generally expected that there will be a severe downturn in world economic growth in 2020 and that the recovery will start in the second half of the year at the earliest. As an open economy, Europe is quite vulnerable to the direct and indirect economic consequences of the corona crisis. The policy response to this crisis has been robust. However, the extent to which the measures involved will counteract the slowdown is still largely uncertain.

US economic growth also slowed down in 2019 but remained surprisingly stable in the second half of the year. The positive impact of government stimulation measures and a tax reform in 2017 petered out. What's more, trade conflicts and the deteriorating economic climate put a brake on US activity. The Federal Reserve responded by relaxing its monetary policy once again, cutting its key rate by 25 basis points three times. The unwinding of its balance sheet was also halted earlier than planned. Fearing the economic consequences of the corona crisis, the Fed surprisingly cut rates again, the first time by 50 basis points in early March 2020 and then by 100 basis points in mid-March 2020. The Fed hopes that, by making this move, it will limit the impact of the corona crisis on the US economy. In the meantime, budgetary stimulus measures are being taken in the US to supplement the more flexible monetary policy there. The Chinese economy was hit hard by the US-Sino trade war but will take a much bigger bruising from the coronavirus crisis and the drastic measures implemented by the Chinese government to fight the virus. The additional stimulus provided by China's government and central bank will soften the downturn only to a limited extent. The gradual recovery of the Chinese economy will support a vigorous economic recovery in Europe, though the continuing slowdown of growth in the US is bad news for Europe's economy too.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

At present, the European economy can count on some support from lower oil prices caused by the recent oil price war between Saudi Arabia and Russia.
Our forecasts are based on the assumption that the coronavirus and the measures taken to limit its spread will have a significant – but temporary – negative economic impact. Under current assumptions, the European economy will contract in the first and second quarters of 2020 before gradually recovering in the second half of the year. The corona crisis will continue to adversely affect the US economy in the third quarter, as well. The long-term outlook for both economies remains unchanged and points to a period of modest growth.

The expectations, forecasts and statements regarding future developments that are contained in the annual report are based on assumptions and assessments made during at the time of the preparation of this report.

On 31 March 2020, the Bank concluded a Share Purchase Agreement ("SPA") with KBC Asset Management NV for the sale of its shareholding of 91% (or 636 shares) in UBB Asset Management at the amount BGN 1 599 thousand. The price was determined by independent external valuator.

Except the above disclosed events after the reporting period, there are no other events after the date of preparation of financial statements which might have impact on the presentation of financial information for the year ended 31 December 2019.

1.13. Responsibility of management

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

The Management confirms that suitable accounting policies have been used.

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

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

UNITED BULGARIAN BANK * SOFIA *

Christof De Mil	**Svetla Georgieva**
Executive Director	**Executive Director**

Date: 13.04.2020

Separate and Consolidated Corporate Governance Statement
of United Bulgarian Bank AD (UBB)
as of 31.12.2019
(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, letter 'n', Para. 9 of the *Public Offering of Securities Act and UBB AD Corporate Governance Code*.

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

Management structure

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

Supervisory Board (SB)

The Supervisory Board has been empowered to exercise preliminary ongoing and subsequent control on the compliance of UBB's activity with the applicable law, the Articles of Association and the decisions of the General Meeting of Shareholders in the interest of the clients and shareholders of UBB AD. The competence of the Supervisory Board is stipulated in the law, the Articles of Association and with decisions of the General Meeting of Shareholders. The particular powers of the Supervisory Board are listed in UBB's Articles of Association as well as in the Operational Rules of the Supervisory Board of UBB AD and UBB AD's Corporate Governance Code.
UBB AD's Supervisory Board comprises from 3 (three) to 7 (seven) persons elected by the General Meeting of Shareholders. The Supervisory Board members are being elected for a mandate of 4 (four) years and may be re-elected without limitation. Each member's mandate may be terminated by the General Meeting of Shareholders at any time. The candidate-members of the Supervisory Board shall have to comply with the requirements indicated in Art. 11 of the Credit Institutions Act, Ordinance № 20 of the BNB for issuance of approvals to management board members (the Board of Directors) and the supervisory board of a credit institution and requirements in line with the performance of their functions and in the Bank's Articles of Association and are subject to preliminary approval by the Bulgarian National Bank.
In 2019 there were no personal changes in the composition of the Supervisory Board of UBB AD, but such are expected at the beginning of 2020.
With a decision of the General Meeting of Shareholders from 17.12.2019 Mr. Willem Hueting was released as a member of the Supervisory Board of UBB AD, and Mr. Barak Chizi was appointed as a new member of the Supervisory Board of UBB AD. The change is expected to be officially published in the Commercial Register in January 2020.
Additionally, a change in the composition of the Supervisory Board of UBB AD is expected also in the beginning of 2020, with respect to the requirement of art. 10a of the Credit Institutions Act for having at least 1/3 of the members in the Supervisory Board independent. In order to comply with the latter 2 (two) new members of the Supervisory Board will be appointed by the General Meeting of Shareholders, who will meet the independence requirement, according to the criteria, set forth in art. 10a of the Credit Institutions Act. The number of the Supervisory Board members will be increased from 4 (four) to 6 (six).

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Committees to the Supervisory Board

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

- **The Risk and Compliance Committee** is a sub-committee to the Supervisory Board. This committee consults the Supervisory Board on the overall current and future risk appetite and risk strategy, as well as the current and future rules on compliance. It supports the Supervisory Board in the monitoring and control on the application of these elements and rules by the senior management. This committee has no other powers and responsibilities than those delegated by the Supervisory Board. In principle only the Supervisory Board has decision-making powers, while the Risk and Compliance Committee has a consultative role unless some particular decision-making powers have been delegated to it by the Supervisory Board or such have been granted pursuant to the local legislation. The Supervisory Board bears full responsibility for the risks. The Risk and Compliance Committee comprises of the members of the Supervisory Board as envisaged in Art. 6 of Ordinance № 7 of the BNB on the Organization and Management of Risks in Banks. The Committee members are nominated by the Supervisory Board.
- **The Remuneration Committee** is a sub-committee to the Supervisory Board established in accordance with Ordinance № 4 of the BNB on the requirements for remunerations in banks, as well as with all applicable legal and regulatory requirements and with the best corporate governance practices. This committee performs competent and independent assessment of the remuneration policies and practices, as well as the incentives envisaged for managing risk capital and liquidity. The Committee is responsible for elaboration of decisions relating to remunerations, while taking into account the possible risk and the risk management at UBB, the long-term interests of shareholders, investors and the other interested parties connected to UBB. UBB AD Remuneration Committee comprises of members of the Supervisory Board, who are being appointed by the latter.
- **The Nomination Committee** is a sub-committee to the Supervisory Board responsible for the election of candidate-members for the Management Board and the Supervisory Board in compliance with Ordinance № 20 of the BNB for issuance of approvals to management board (board of directors) as well as supervisory board members of credit institutions and the requirements in line with the performance of their functions, as well as the applicable statutory and regulatory requirements. The Nomination Committee comprises of members of the Supervisory Board, who are being appointed by the latter. The Committee defines and recommends Supervisory Board candidate-members for election by the General Meeting of Shareholders and Management Board candidate-members for election by the Supervisory Board, while taking into account the balance of professional knowledge and skills the various qualifications and professional experience of the boards members, needed for UBB's management. Besides, the Committee elaborates a description of the functions and the requirements to the candidates and determines the time expected to be dedicated by the elected members to the activity of the Management Board and the Supervisory Board.

Audit Committee

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

The Audit Committee of UBB AD comprises of two members external to and independent from the bank and one member who is at the same time Supervisory Board member.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Audit Committee (continued)

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

Management Board

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

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

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

In 2019 the following personal changes were made in the composition of the Management Board of the Bank:

By decision of the Supervisory Board of UBB AD under Minutes No. 22 of 28.11.2018 Mr. Frank Jansen was released as a Management Board Member of UBB AD and Mrs. Desislava Simeonova was elected as a new member of the Management Board. The change was officially registered in the Commercial Register on 01.02.2019. The number of members of the Management Board was not changed.

Committees to the Management Board

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

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

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Committees to the Management Board (continued)

- **Local Investment Committee**, empowered to approve acquisitions of and investments in real estate, related to Legacy loans, of value either lower or equal to EUR 1 million.
- Investment Committee, empowered to approve acquisitions of and investments in real estates, related to Legacy loans of value above EUR 1 million.
- **Project Oversight Committee** – it has powers to review all issues with respect to all projects in the bank.

Communication with shareholders

UBB AD engages itself with the principle of impartial attitude towards all its shareholders, including minority and foreign ones, by guaranteeing them equal treatment upon access to information. The shareholders are being provided with full accounting information for the year, to keep them up-to-date of UBB AD's performance and development. The annual General Meeting provides the shareholders with an opportunity to ask questions to the UBB's management and controlling bodies.
The Bank believes that the thorough disclosure and transparency of its operations is in the interest not only of its good governance, but also to the benefit of a sound and stable banking sector.

Shareholding structure

As of 31.12.2019 the share capital was allocated into 93 838 321 ordinary registered shares with nominal value of BGN 1 (one Bulgarian lev) each. Each share entitles to one vote at the General Meeting of Shareholders, right to dividend and a proportionate share upon liquidation of UBB's property. UBB AD has neither issued securities with special controlling rights, nor are there envisaged restrictions in line with exercising the rights materialized in the shares issued by UBB.

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

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

2. SUPERVISORY BOARD (SB)

2.1. Supervisory Board Members

Name	Year of Birth	Education/ Qualifications	First election in	Mandate's validity
Luc Popelier SB Chairperson	1964	Master's Degree in Business Economics	2017	2020
Christine Van Rijsseghem SB Member	1962	Master's Degree in Law and Business Administration (MBA) – Financial sciences	2017	2020
Willem Hueting SB Member	1962	Master's Degree in Organization & Marketing licensed insurance broker SER A and B	2017	2020
Franky Depickere SB Member	1959	Master's degree in commercial and financial sciences	2018	2022

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.2. Election and mandate

UBB's Supervisory Board comprises from 3 (three) up to 7 (seven) persons elected by the General Meeting of Shareholders for a mandate of 4 (four) years and may be re-elected without limitation. Members of the SB may also be legal entities, which appoint their own representatives. The Supervisory Board elects a Chairperson and may elect a Deputy Chairperson among its members. It adopts its Operational Rules.
To date the Supervisory Board comprises of 4 (four) persons, 3 (three) of them have been elected SB members by virtue of a resolution of the General Meeting of Shareholders dated 14.06.2017 for a period of 3 (three) years, in accordance with the requirement of Art. 233, Para. 2 of the Commerce Act and 1 (one) has been elected SB member with a resolution of the General Meeting of Shareholders dated 04.12.2018 for a period of 4 (four) years.

SB Responsibilities pursuant to UBB Articles of Association

The Supervisory Board holds its meetings at least once per quarter. The meetings are being convened by either the Chairperson or in his/her absence - by the Deputy Chairperson through the latter's own initiative. A meeting of the Supervisory Board may be convened upon a written request by members of either the Supervisory or the Management Boards.
A meeting of the Supervisory Board shall be deemed compliant with the law if more than half of its members are either personally present or are represented by another member of the Board under a written power of attorney. A member of the Supervisory Board may not represent more than one absent member. The Supervisory Board shall make decisions with the majority vote of its members, involved in the voting. Each Board member shall be entitled to one vote.
The Supervisory Board meetings are being documented with minutes, entered into a special book, which minutes are being signed by all present or represented SB members. The Supervisory Board may also make decisions without holding of meetings, which decisions shall also be entered in the book of minutes under the condition that the proposed decisions have been provided to each and every member in writing and all Supervisory Board members have stated in writing their consent to the made decision.
The Chief Executive Officer participates in the Supervisory Board meetings with advisory vote entitlement. The other Executive Directors may attend meetings of the Supervisory Board, if invited to do so. Third persons may also attend meetings without the right to vote, if invited to do so by the Supervisory Board.

The Supervisory Board has the following powers:

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

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.3. Professional experience and other activities and functions

Mr. Luc Popelier
Supervisory Board Chairman
Chief Executive Officer of International Markets Business Unit in KBC Group N.V.
Year of Birth: 1964

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

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

KBC Group NV	Member of the Executive committee
KBC Group NV - Branch Bulgaria	Senior General Manager; Branch Manager
K&H Bank Zrt.	Chairman of the Board of Directors; Non-executive director
KBC Asset Management NV	Chairman of the Supervisory Board; Non-executive director
DZI Life Insurance Jsc	Chairman of the Supervisory Board; Non-executive director
DZI - GENERAL INSURANCE JSC	Chairman of the Supervisory Board; Non-executive director
K&H Biztosító Zrt	Chairman of the Supervisory Board; Non-executive director
KBC Bank NV	Member of the Board of Directors; Executive director
KBC Verzekeringen NV	Member of the Board of Directors; Executive director
KBC Bank NV Dublin Branch	Chairman of the Supervisory Board
ČSOB Poist'ovňa a.s.	Member of the Supervisory Board
KBC Bank Ireland Plc	Chairman of the Board of Directors; Non-executive director
Československá Obchodná Banka a.s.	Chairman of the Supervisory Board; Non-executive director
KBC Focus Fund NV	Chairman of the Board of Directors; Non-executive director
KBC Securities NV	Chairman of the Board of Directors; Non-executive director

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

Ms. Christine Van Rijsseghem
Supervisory Board Member
Chief Risk Officer at KBC Group NV

Year of Birth: 1962
Ms. Van Rijsseghem holds a Master's Degree in Law from Ghent University, Belgium. Moreover, she also holds a Master's Degree in Business Administration (MBA) – Financial Sciences from Vlerick Business School. Ms. Van Rijsseghem started her professional career in University Graduates Team, Kredietbank in 1987. From 1988 until 1991 she worked for Central Department Foreign Entities at Kredietbank (risk management and controlling). In 1992 she became Head of Central Department of Foreign Entities (incl. International acquisition strategy). Over the period from 1994 until 1996 she held the position Head of Credit Department at Irish Intercontinental Bank (KBC subsidiary). Ms. Van Rijsseghem became Chief Executive Officer of KBC France (KBC branch) in 1996 and in 1999 – Chief Executive Officer of KBC London (KBC branch). From 2000 until 2003 she held the position Senior General Manager of Securities and Derivatives Processing Directorate, while during the period 2003 – 04.2014 she took the position of Senior General Manager Group Finance at KBC Group. In effect since May 2014 Ms. Christine Van Rijsseghem has been the elected CRO of KBC Group and Member of the Executive Committee of KBC Group.

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

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

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

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

Mr. Hueting holds a Master's Degree in Organization & Marketing from Open University Zwolle, the Netherlands. Moreover, Mr. Hueting is a licensed insurance broker SER A and B. He started his career as an underwriter at AMEV-ARDANTA (Fortis/ABN AMRO) in 1983 and continued to work there until 1988. In October 1988 – May 1990 period Mr. Hueting worked for Concordia Life and Pension (Vivat Group) as Sales Manager. After that he joined ABN AMRO Netherlands - Life Insurance as Sales Manager (June 1990) and later he took over the following positions in that same company - Product Manager - Investment Funds /Private Banking (March 1995) and Project Manager (1998). In January 1999 Mr. Hueting was elected Executive Director Marketing and Product Management at ABN AMRO Hungary, while later on – in August 2001, Member of the Executive Board of Raiffeisen International Bank, Czech Republic. In May 2007 Mr. Hueting joined KBC Group as Chief Executive Officer of KBC Consumer Finance IFN SA and Member of the Management Board of KBC Consumer Finance International. From October 2009 until December 2012 he held the position of Chief Executive Officer of KBC (CSOB) Insurance, Slovakia and Deputy Country Manager CSOB (KBC) Financial Group, while in January 2013 he took over the position of Chief Executive Officer Consumer Finance International, KBC Group. In May 2016 Mr. Hueting took over the position Senior General Manager International Markets at KBC Group and Senior General Manager Group Communities, which he holds until June 2019. Currently, he is holding the position Senior General Manager Shared Services & Operations at KBC Group N.V.

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

KBC Group NV Belgium	Senior General Manager
KBC Group NV - Branch Bulgaria	Branch manager

Mr. Franky Depickere
Chief Executive Officer at CERA and KBC Ancora
Year of Birth: 1959

Mr. Depickere holds a Master's Degree in Commercial and Financial Sciences from the University of Antwerp (HHS-UFSIA – Belgium).
He joins CERA Group in 1982 and held several Executive Positions there for more than 17 years. In 1999 he becomes managing Director and Chairman of the Executive Committee of F. van Lanschot Bankiers Belgie NV, as well as group director of F. van Lanchot Bankers in the Netherlands. Since 2005 onwards Mr. Depickere is also a member of the Strategic Committee of F. van Lanchot Bankiers (the Netherlands).
As of September 2006, he is Managing Director of Cera and KBC Ancora.
Mr. Franky Depickere participates in managing bodies of several non-profit legal entities – Chairman of BRS vzur (Leuven, Belgium). He is a Chairman of the 'lnternational Raiffeisen Union' (l.R.U. – Bonn, Germany). Member of the Executive Committee of EACB (European Association of Cooperative Banks in Brussels Belgium. Mr. Depickere is also Chairman of the Board of Directors of Flanders Business School (Antwerp Campus KU Leuven, Belgium), as well as a member of the Senate KU Leuven (Catholic University Leuven Belgium) and a member of the Board of Directors of KU Leuven Kulak (Kortrijk ,Belgium).

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

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

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

2.4. Internal organizational structure

Allocation of responsibilities among the Supervisory Board members

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

2.5. Annual Report of the Supervisory Board

In 2019 the Supervisory Board of United Bulgarian Bank held 28 meetings, of which 4 *in praesentia* and 24 *in absentia* ones, pursuant to Art. 39, Para. 4 of the UBB's Articles of Association, namely: The proposed decisions were provided to every member in writing and all SB members have stated their consent to those in writing.

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.5. Annual Report of the Supervisory Board (continued)

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 2019 regular *in praesentia* meetings were held every quarter – March, June, September and December 2019.

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 2019 may be summarized, as follows:

1. The first group of topics reviewed by the Supervisory Board during 2019 are related to changes in the internal banking regulation (for the documents, which according to the Articles of Association of the bank need to be ratified by the Supervisory Board).

2. The second group of issues reviewed by the SB in 2019 are such by virtue of Art. 37, Para. 2, Item 7 in relation to Art. 48, Para. 1, Item 3, letters „d“ and „h“ of the UBB's Articles of Association - material internal organizational changes; establishment and closing of directorates and standalone departments, as well as appointment of heads of such structural units; allocation of the functions among the UBB's representatives in terms of the subordination of the main structural units at UBB – directorates and standalone departments.

3. The agenda of the in praesentia meetings of the SB during 2019 included review of the financial performance from UBB's activity as at the end of each quarter, reports on the activity of the Chief Executive Officer of UBB for the respective quarter were discussed, as well as other issues which were of the SB competence, pursuant to UBB AD's Articles of Association, the Operational Rules of the Supervisory Board and the UBB's internal rules and regulations.

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

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

6. Other SB decisions adopted in 2019 – approval of the selection of first and second auditing companies for verification and certification of UBB's annual financial statements for 2019 by virtue of Art. 76, Para. 1 and 4 of the Credit Institutions Act; approval of the decisions made by the committees to the SB at the meetings held by them; convening of the General Meeting of Shareholders, when this was necessary.

The activity of the Supervisory Board over 2019 aimed at ensuring effective control on the compliance of UBB's operations with the applicable laws the Articles of Association and the resolutions of the General Meeting of Shareholders in the interest of UBB's clients and its shareholders while guaranteeing the implementation of the long-term strategy and the set immediate objectives before UBB AD for the accomplishment of which UBB's Management Board is accountable.

3. MANAGEMENT BOARD

3.1. Management Board Members

Name	Year of Birth	Position	Education/ Qualification
Peter Andronov Chairman	1969	Chief Executive Officer	Master's Degree in Finance
Christof De Mil Member	1973	Executive Director Finance	Master's Degree in Applied Economics and Business Administration
Svetla Georgieva Member	1967	Executive Director Risk	Master's Degree in International Business Management and Business Administration qualification in Industrial Electronics
Desislava Simeonova Member	1972	Executive Director SME & Corporate Segment	Master's Degree in Law
Teodor Marinov Member	1971	Executive Director Legacy and Subsidiaries	Master's Degree in Systems & Management and Business Administration
Ivaylo Mateev Member	1967	Executive Director Operations	Master's Degree in Economics & Management of Commerce
Jan Swinnen Member	1963	Executive Director Marketing and Retail Distribution	Master's degree in Financial Management & Marketing
Persons non-members of the Management Board but present at the Board meetings with advisory vote entitlement:			
Hristina Filipova Procurator	1952	Procurator	Master's Degree in Economics

3.2. Election and mandate

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

To date the Management Board comprises 7 (seven) persons who have been elected MB members by virtue of decisions of the Supervisory Board dated 14.06.2017, 20.07.2017, 11.09.2018 and 28.11.2018, for a period of 4 (four) years in accordance with the requirement of Art. 41, Para. 1 of the UBB's Articles of Association.

3. MANAGEMENT BOARD (CONTINUED)

3.2. Election and mandate (continued)

MB Responsibilities pursuant to UBB's Articles of Association

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

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

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

The Management Board has the following powers:

- ✓ Defines the general trends of the UBB's activity in its credit interest rate and accounting policy;
- ✓ Organizes and steers the implementation of the resolutions of the General Meeting of Shareholders;
- ✓ Upon the SB's approval makes decisions on closing or transferring UBB's enterprise or essential parts thereof; opening and closing of branches; material change in UBB's activity; essential internal and organizational changes; establishment and closing of directorates and standalone departments as well as appointment of heads of such structural units; long-term cooperation of essential importance for UBB or termination of such cooperation; acquisition of 25 % or more of the voting rights or of a legal entity's registered capital as well as in any case when the value of such acquisition exceeds 10% of UBB's equity; empowering at least two of its members - Executive Directors - to represent UBB and to carry out its operational management as well as election of a MB Chairperson and Chief Executive Officer; allocation of the functions between the persons managing and representing UBB in terms of the subordination of main structural units at UBB – directorates and standalone departments; empowerment of commercial representatives and procurator/s of UBB and conclusion of a procurator's contract; disposal of a substantial part of UBB's property including rights on intellectual property which value exceeds 5% of the Bank's equity in accordance with the recent monthly accounting statements;
- ✓ Adopts the internal rules on UBB's activity and its Operational Rules which are approved by the Supervisory Board;
- ✓ Makes decisions on granting of large exposures as per Art. 44 of the Credit Institutions Act and of internal loans pursuant to Art. 45 of the same act for restructuring early collection as well as initiation of enforcement actions with respect to risk exposures exceeding in amount the figures as determined in the internal rules of UBB upon a reasoned proposal by the respective specialized body of UBB;
- ✓ Prepares and submits for approval to the Supervisory Board the annual financial statements, the report on the company's activity and the profit allocation proposal.
- ✓ Makes decisions on the organizational structure of the specialized internal audit unit its staff number the requirements for professional qualification, experience and the other requirements to the internal audit inspectors in view of the reasonable needs of control while complying with the budget as determined by the General Meeting of Shareholders.
- ✓ Also performs other functions assigned to it by the General Meeting of Shareholders the SB the Articles of Association and the law.

3. MANAGEMENT BOARD (CONTINUED)

3.3. Professional experience and other activities and functions

Mr. Peter Andronov
Chairman of the Management Board and Chief Executive Officer
Year of Birth: 1969
Mr. Andronov holds a Master's Degree in Finance from the University of National and World Economy - Sofia. He started his career as expert at USW Financial Consulting company where he worked during the period June 1994 – November 1994 after which until May 1996 he worked as Expert Chief Expert and Unit Manager in the field of analysis and methodology at two commercial banks in Bulgaria. Mr. Andronov started working for the Bulgarian National Bank in 1997, holding the position of Expert and later on Chief Expert to the BNB Governor's Office. From 2003 until May 2007 Mr. Andronov was member of the BNB Investment Committee and from 2002 until 2007 he was General Director of Banking Supervision Department at the BNB. In 2007 Mr. Andronov joined the team of CIBANK EAD as Executive Director, while in 2008 he was elected Chief Executive Officer of that same bank. On 14.06.2017 he was also elected Chairman of the Management Board and Chief Executive Officer of UBB AD.
Legal entities, other than UBB AD, in which management and controlling bodies Mr. Andronov participates:

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

Mr. Christof De Mil
Management Board Member and Executive Director Finance
Year of Birth: 1973
Mr. De Mil holds a Master's Degree in Applied Economics from Ghent University, Belgium and in Business Administration from INSEAD. He started his professional development as manager of Ghent branch at Kredietbank, Ghent, Belgium in 1995. In 2000 he joined KBC Group, Zelzate, Belgium, where he held positions as Zelzate Branch Manager (until 2003) and Cluster Manager (from 2003 until 2005). Over the period from 2006 until 2011 Mr. De Mil was elected Executive Director, responsible for the management of the branch network at CSOB (part of KBC Group) Prague, Czech Republic. Since 2013 he has been part of the team of CIBANK EAD, holding the positions Executive Director Distribution, Payments, Marketing, Data Analysis and member of the Country Team of KBC Group for Bulgaria, with responsibilities for the bank-insurance business, while in 2017 he was elected Executive Director Finance and Country Finance Director. Since June 2017 Mr. Christof De Mil has been UBB AD Management Board Member and Executive Director Finance.
Legal entities, other than UBB AD, in which management and controlling bodies Mr. De Mil participates:

- UBB Asset Management AD - Member of the Board of Directors
- Belgium-Bulgaria-Luxemburg Business Club – non-profit association – Member of the Executive Board
- German – Bulgarian Chamber of Industry and Commerce – non-progit association – Chairman of the Expert Committee 'Banking and Insurance'

Ms. Svetla Georgieva
Management Board Member and Executive Director Risk
Year of Birth: 1967
Ms. Georgieva holds a Master's Degree in Management of International Business from the University of National and World Economy in Sofia, Bulgaria, a Master's Degree in Business Administration from the University of Washington, USA, as well as qualification with major in Industrial Electronics from Moscow Power Engineering Institute, Russia.

3. MANAGEMENT BOARD (CONTINUED)

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

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

Deputy Director of Credit Management Directorate. In 2014 Ms. Georgieva was elected Country Risk Manager and Executive Director Risk at CIBANK EAD. In 2017 she joined UBB AD as MB Member and Executive Director Risk.

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

Mrs. Desislava Simeonova
Management Board Member and Executive Director SME & Corporate Segment
Year of Birth: 1972
Desislava Simeonova holds a Master’s degree in Law. She started her professional career as a legal trainee at Sofia City Court. In 2000 she was appointed as a public enforcement agent at the State Receivables Collection Agency to the Ministry of Finance. Subsequently she also worked as a legal counsel at the Legal Directorate and an expert to the Inspectorate of that same institution.
Over the period 2004 – 2008 she worked as a legal counsel at the Bulgarian National Bank, Banking Supervision Department. She joined the team of CIBANK more than 10 years ago at the Corporate Officer position. Later on, she consecutively managed Legal Services and Methodology Directorate and in 2016 she was appointed SME Director, while achieving excellent results in that segment. After the acquisition of UBB AD by the Belgian financial group KBC in 2017 Desislava Simeonova took over the function of SME Distribution Director at UBB. As of February 2nd, 2019 she is a MB Member and Executive Director SME and Corporate at UBB AD.
Legal entities, other than UBB AD, in which management and controlling bodies Mrs. Simeonova participates:

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

Mr. Teodor Marinov
Member of the MB and Executive Director Legacy and Subsidiaries
Year of Birth: 1971
Mr. Marinov holds a Master’s Degree in Systems Control from the Technical University, Sofia, as well as an MBA from London Business School. He is also a Chartered Financial Analyst. Mr. Marinov started his career as a Financial Analyst at the Bulgarian Stock Exchange and then worked as a Customer Relationship Manager at the Bulgarian Investment Bank AD before being promoted to Credit Analysis Unit Manager. In 1997 Mr. Marinov was recruited as Investments Manager in Balkan Regional Division of the National Bank of Greece. He held the position of Executive Director of Interlease EAD during the period 2001-2010 and currently he is a Chairperson of the Board of Directors of UBB Interlease EAD. Also, he was member of the Board of Directors of NBG Leasing DOO, Serbia and NBG Leasing – Romania until June 2017. Mr. Marinov is a member of CFA Institute since 2001, member of the Bulgarian CFA Association and the Bulgarian Turnaround Management Association. In June 2017 Mr. Marinov was elected MB member and Executive Director Legacy of UBB AD, while in July 2017 - also a MB member and Executive Director Legacy at CIBANK JSC. As of 2019 he is also responsible for the subsidiaries of UBB AD.

3. MANAGEMENT BOARD (CONTINUED)

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

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

- UBB Interlease EAD - Chairperson of the Board of Directors
- UBB Asset Management AD - Member of the Board of Directors
- UBB Insurance Broker EAD - Chairperson of the Board of Directors

Mr. Ivaylo Mateev
Member of the MB and Executive Director Operations
Year of Birth: 1967
Mr. Mateev holds a Master's Degree in Management of Commerce at the University of National and World Economy (UNWE) Sofia. He started his career in 1992 in the Bank Policy Unit, United Bulgarian Bank. From 1993 to 1995 he worked at Strategic Planning Unit of UBB. In 1996 he was appointed Manager Management Accounting Unit at UBB and in 1998 - Project Manager of the EQUATION Project. During the period 2000-2008 he held the following positions at UBB: Project Manager – GLOBUS system implementation project Director Business Processes and Organization Department, Director Branch Network Management Department. In 2008 he had a long-term assignment for implementing the T24 core banking system, managing a centralization project at Vojvodjanska Banka Novi Sad. Mr. Mateev has been Chief Operating Officer of UBB since 2009. In June 2017 he was elected MB Member and Executive Director Operations of UBB AD, while in July 2017 - MB member and Executive Director Operations at CIBANK EAD.
Legal entities, other than UBB AD, in which management and controlling bodies Mr. Mateev participates:

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

Mr. Jan Swinnen
Member of the Management Board and Executive Officer Marketing and Retail Distribution
Year of Birth: 1963
Mr. Jan Swinnen graduated his higher education and acquired his Bachelor's Degree in Finance & Banking from HORAMA Diest – Belgium, was involved in post-graduate studies and obtained qualification with major in Human Resources Management from EHSAL, Brussels, Belgium, as well as he has Master's degree in Financial Management & Marketing. Mr. Swinnen has held positions with managerial functions, as from 1990 until 2002 at KBC Belgium he was Manager of a branch and offices at 4 (four) different locations. In 2003 he started working for K&H Hungary (KBC Group), as Senior Director in charge of retail products, sales and strategies. In 2005 Mr. Swinnen held the Senior Director position at Retail Banking Directorate, banking channels for sale and support at K&H Hungary (KBC Group), while in May 2009 he started working for CSOB Slovakia (KBC Group) as Manager of Retail Branch Network Management Unit. From August 2012 until March 2017 he held the position director of Branch Network and Distribution Channels Directorate at CIBANK EAD, Bulgaria (KBC Group) after which he was empowered as the bank's Commercial Representative. In June 2017 Mr. Swinnen was also empowered as a Commercial Representative of UBB AD. Since October 2018 Jan Swinnen is Member of the MB and Executive Officer Marketing and Retail Distribution in UBB AD.
Legal entities, other than UBB AD, in which management and controlling bodies Mr. Swinnen participates:

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

Ms. Hristina Filipova
Procurator
Year of Birth: 1952
Ms. Filipova holds a Master's Degree in Economics from the University of National and World Economy - Sofia. She started her career path in 1978 as an accountant at the Bulgarian National Television. From 1980 until 1983 Ms. Filipova worked as Specialist - Economist at the Institute for Hydrotechnical Equipment and Meliorations.

3. MANAGEMENT BOARD (CONTINUED)

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

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

Since 2007 until February 2018 she is part of the team of CIBANK EAD, while holding the following positions: Commercial Representative (2007 – 2011), MB Member and Executive Director (2001 – 2014) and Procurator (from 2014 until February 2018). In August 2017 Ms. Filipova was empowered as a Procurator of UBB AD.
There are no legal entities, other than UBB AD, in which management and controlling bodies Ms. Filipova participates.

3.4. Annal report of the Management Board

In 2019 the Management Board of United Bulgarian Bank held 66 meetings of which 59 *in praesentia* and 7 *in absentia* ones, pursuant to Art. 46, Para. 1 of the bank's Articles of Association, namely: the proposed decisions were provided to every member in writing and all MB members stated their consent to those decisions in writing. The requirement of Art. 44, Para. 1 of UBB's Articles of Association, according to which the Management Board shall hold regular meetings at least once per month has been complied with. The average duration of the Management Board meetings was 3 hours, which is deemed sufficient and optimal for detailed discussions on the agenda items, in view of the approval practices.

In brief, the main reviewed discussed and approved topics by the MB in 2019 may be summarized, as follows:

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

The activity of the Management Board over 2019 aimed at ensuring flexible, however sustainable development and budget fulfillment, defining the long-term strategy thus strengthening UBB's management and control while guaranteeing the implementation of the long-term strategy and the set immediate objectives before UBB AD for the accomplishment of which UBB's Management Board is accountable.

4. COMMITTEES TO THE SUPERVISORY BOARD

4.1. Risk and Compliance Committee
4.1.1. Risk and Compliance Committee Members

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

Mr. 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

Pursuant to amendments in Ordinance 7 of BNB for the organization and risk management of banks, adopted in 2019, the Risk and Compliance Committee should have at least three members and the majority of them should be independent according to Art. 10a, Para. 2 of the Credit Institutions Act. After the personal change in the composition of the Supervisory Board in the beginning of 2020 is executed, namely the election of two new independent members, they will also be elected as members of the Risk and Compliance Committee. In order to comply with the requirement to have majority of independent members in the committee, two of the present members will be released and only one member will remain from the representatives of the majority shareholder – KBC Bank NV.

4.1.2. Risk and Compliance Committee Report

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

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

In 2019 UBB’s Risk and Compliance Committee held four meetings attended by all its members.

In brief, the main topics were: review of the regular integrated risk report; the regular report on the results from the management of the Bank’s legacy portfolio; overview of the situation on the real estate market; review of the regular compliance report; information about legal claims of large importance; information about the risk-based pricing; information about internal control statements and information about risk assessment of the remuneration policy and practice.
The members of the Risk and Compliance Committee discussed and accepted the Annual Compliance Report, the Annual Anti-Money Laundering Report and the Annual Data Protection Officer Report. The Committee also acknowledged and approved the priorities of Risk Management Directorate and Compliance Directorate for 2020.

4. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)
4.1. Risk and Compliance Committee (continued)
4.1.2. Risk and Compliance Committee Report (continued)

The Committee reviewed and proposed to the SB for ratification the following documents: Risk Appetite Framework of UBB for the period 2019-2021, revised versions of the Risk and Compliance Committee Charter and the Compliance Charter, revised version of Integrity Policy of UBB, Risk Appetite of Compliance Directorate for the period 2019 – 2023, Compliance Directorate Strategy for the period 2019 -2023, Policy on record keeping and taping of electronic communication related to deals in financial instruments, revised Policy on handling of conflict of interest upon provision of investment and/or ancillary services of UBB.

4.2. Remuneration Committee
4.2.1. Remuneration Committee Members

Mr. Luc Popelier
UBB Remuneration Committee Chairman
UBB Supervisory Board Chairman

Mr. Willem Hueting
UBB Remuneration Committee Member
UBB Supervisory Board Member

Pursuant to amendments in Ordinance 4 of BNB for the requirements for remunerations in banks, adopted in 2019, the Remuneration Committee should have at least three members and the majority of them should be independent according to Art. 10a, Para. 2 of the Credit Institutions Act. After the personal change in the composition of the Supervisory Board in the beginning of 2020 is executed, namely the election of two new independent members, they will also be elected as members of the Remuneration Committee. In order to comply with the requirement to have majority of independent members in the committee, one of the present members will be released and only one member will remain from the representatives of the majority shareholder – KBC Bank NV.

4.2.2. Remuneration Committee Report

UBB Remuneration Committee performs its activities in conformity with the objectives, principles and scope of UBB Remuneration Policy.
It is subordinate to the Supervisory Board and consists of members of this Board. The Committee elects Chairman and Secretary and operates effectively according to its work rules, approved by the Supervisory Board.

The Remuneration Committee exercises competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity. It is responsible for the preparation of decisions regarding remunerations, while taking into account the implications for the risk and risk management at the bank, the long-term interests of shareholders, investors and other stakeholders in the bank.
In 2019 the Committee held two meetings with the participation of all of its members. The main topics on the agenda and the decisions were related to Ratification of the new KBC Group Remuneration Policy, approval of a new UBB Remuneration Policy, approval of variable remuneration for the previous year, changes in fixed remuneration, approval of the KPIs for the Board members.
At the second meeting of the Committee in 2019 the topics and decisions taken were related to changes in the Operational Rules of the Remuneration Committee, mainly with respect to legislative requirements towards its composition.
All proposals were approved by the Supervisory Board.

4. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)
4.3. Nomination Committee
4.3.1. Nomination Committee Members

Mr. Luc Popelier
UBB Nomination Committee Chairman
UBB Supervisory Board Chairman

Mr. Willem Hueting
UBB Nomination Committee Member
UBB Supervisory Board Member

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

4.3.2. Nomination Committee Report

The Nomination Committee identifies and recommends for selection by the General Meeting of Shareholders candidate members of the Supervisory Board, or by the Supervisory Board – candidate members of the Management Board, taking into account the balance of professional knowledge and skills, the various qualifications and experience of the members of the Board necessary for the management of the bank. In addition, the Committee prepares description of the functions and the requirements for candidates and determines the time that the selected members are expected to spend in the work of the Management Board and of the Supervisory Board.
The Committee determines a target level in relation to the participation of the under-represented gender in the composition of the Management Board and of the Supervisory Board and develops a policy to increase the number of representatives of the under-represented gender in the composition of the boards to achieve this level.
The Nomination Committee performs analysis periodically but not less than once a year of the structure, composition, number of members and the results of the work of the Management Board and of the Supervisory Board, and provides recommendations for possible changes. It analyses periodically but not less than once a year, the knowledge, skills and experience of the members of the Management Board and of the Supervisory Board, as a whole and individually of each member, and reports to each of them.
Reviews periodically the Management Board policy for selection and appointment of members of the senior management staff and provides recommendation to it.
While performing its functions the Nomination Committee analyses periodically the necessity to guarantee that the process of decision making by the Management Board and by the Supervisory Board is not controlled by a separate person or a small group of people in a way which could harm the interests of the bank.
The Committee reports to the Supervisory Board on the activities, conclusions and recommendations for improvement after each meeting. Minutes of the meetings held by the Nomination Committee are kept by a permanently appointed secretary, an employee at the Human Resources Management Directorate, which Minutes should be presented to the Committee members and the Supervisory Board for approval.

In 2019 the Committee held two meetings with the participation of all of its members. The main topics on the agenda and the decisions were related to the acknowledgement of the results from the conducted self-evaluation of the activity of the Supervisory Board and the identified areas for improvement.

4. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)
4.3. Nomination Committee (continued)
4.3.2. Nomination Committee Report (continued)

At the second meeting of the Nomination Committee in 2019, the topics and the decisions taken were related to changes in the Operation Rules of the Nomination Committee, mainly with respect to legislative requirements for its composition and the responsibilities of the Nomination Committee in the process for selection of candidate members of the Supervisory Board.
All proposals of the Committee were ratified by the Supervisory Board.

5. AUDIT COMMITTEE
5.1. Audit Committee Members and professional experience

In compliance with the requirements in the new Independent Financial Audit Act in December 2018 changes were adopted in the composition and the place of the Audit Committee within the structure of the bank, with a decision of the General Meeting of Shareholders as of 04.12.2018.
As a result, the Audit Committee of UBB AD comprises of two members external to and independent from the bank (majority) and one member who is at the same time Supervisory Board member – Mr. Luc Popelier. One of the external to and independent members of the Audit Committee - Prof. Statty Stattev, is also Chairperson of the Committee, pursuant to the requirements of the Independent Financial Audit Act (Art. 107, para. 6).
The Audit Committee is established as a separate and independent body from the Supervisory Board and the other bodies within the bank, which reports directly to the General Meeting of Shareholders.

Prof. Statty Stattev
Audit Committee Chairman
Year of Birth: 1955
Prof. Statty Stattev is currently Rector of the University of National and World Economy (UNWE) in Sofia, Bulgaria. He has been holding the position since December 2012. Prof. Stattev is also Deputy Chairman of the Rectors Council in the Republic of Bulgaria.
For 38 years Prof. Stattev has been holding different academic and other positions in the UNWE such as Head of the Economics Department, Professor of Macroeconomics in Economics Department, etc. He also has international academic experience in Boston University, Massachusetts, USA and Moscow State University, Russia. In 1990 he was consultant in Country Economics Division of the World Bank, Washington D.C. USA.
In the period June 2004 – June 2016 Prof. Stattev was member of the Governing Council of the Bulgarian National Bank. He has also been a local coordinator for many international research projects connected with entrepreneurship, education, business, etc. In addition, Prof. Stattev is a member of several professional bodies and academic organizations. He has more than 180 scientific publications in Bulgarian, English, Russian, Polish, Greek, Serbian and Albanian.

Ms. Snezhana Kaloyanova
Audit Committee Member
Year of Birth: 1966
Ms. Kaloyanova holds a Master’s Degree in Accountancy and Control from the University of National and World Economy (former Karl Marx Higher Institute of Economics). She started her professional career in 1985 as an accountant at the Agrarian and Industrial Complex in Dragovishtitsa town. Over the period January 1988 – October 1989 she held the position of an accountant at the Machines and Tractors Facility in Shishkovtsi village. Over the period December 1991 – May 1995 Ms. Kaloyanova was Chief Accountant at Manov&Co enterprise. Ms. Kaloyanova was manager and senior manager at Audit and Business Consultancy Services and partner in the specialized auditing company PriceWaterhouseCoopers Audit OOD for the period from May 1995 until September 2006. Over the period September 2006 - May 2007 she was co-founder and partner in the specialized auditing company Moore Stephens Bulmar Financial Audit OOD. Since May 2007 to date she has been managing partner in NS CONSULTING OOD auditing company. Ms. Kaloyanova is a certified public accountant and a registered auditor, Member of the Institute of Chartered Certified Public Accountants since 1994 to date.

5. AUDIT COMMITTEE
5.1. Audit Committee Members and professional experience

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.

Mr. Luc Popelier
Audit Committee Member
Chief Executive Officer of International Markets business unit in KBC Group N.V.
Year of Birth: 1964

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

5.2. Audit Committee Report

The main topics, discussed during the 2019 meetings of the UBB AD Audit Committee were related to the reporting in the area of Finance and Risk, monitoring on the Internal Audit activity and the implementation of the Audit Plan and review of documents, addressing material risks to the Bank including also reports by internal and external auditors and regulatory institutions.
Furthermore, the Audit Committee prepared and provided its annual report to the Commission for public oversight of statutory auditors.

6. COMMITTEES TO THE MANAGEMENT BOARD
6.1. Credit Committees

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

The credit committees have the following functions to:

1. Review and analyze proposals for concluding new credit deals with separate clients and with economically related parties, make decisions on those in compliance with their delegated limits of competence.

6. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)
6.1. Credit Committees (continued)

2. Assess the creditworthiness and the credit risk, related to requests for conclusion of credit deals beyond their competence limits, while observing the subordination hierarchy and provide opinions to the authorized bodies with a higher level of competence - MB or the KBC Headquarters (GCRD), for consideration and final decision-making.

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

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

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

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

Types of credit committees at UBB AD:

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

2. Problem Loans Credit Committee

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

4. Credit committees for Retail Segment, as follows:

4.1. Committee for the new credit business in Retail Segment – Level 1 - approves requests for credit deals at an amount lower or equal to BGN 1 000 000 for Micro business and standard requests for credits of individuals as well as requests for applying exceptions to individuals at an amount lower or equal to BGN 500 000.

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

6.2. Local Risk Management Committee

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

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

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

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

6. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)

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

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

6.4. Local Provisioning Committee

The Local Provisioning Committee is established by and has received its authority by the Management Board. It is a collective body of UBB that makes decisions and recommendations on all topics related to impairments of financial assets of UBB.
The mission of the Local Provisioning Committee is to assist the Management Board in the approval (changes to) the UBB's Impairment Policy for financial assets under IFRS 9, challenging and approval of the monthly impairment results/loss allowances on financial assets not at Fair value through profit or loss (FVPL) on a UBB level under IFRS 9, Challenging of Expected Credit Loss (ECL) model - in case of unusual/ unexpected model output inform the Local Risk Management Committee and potentially trigger a model review.
The Local Provisioning Committee holds meetings on a monthly basis or ad hoc if needed. It takes decisions provided more than half of its permanent members are present in person. Each member is entitled to one vote. Decisions of the Local Provisioning Committee shall be made with total majority (unanimously) of the attending members. If no consensus is reached a final decision will be taken by the Management Board.
The Local Provisioning Committee Minutes are submitted for final endorsement by the Management Board not later than 5 days after the Committee meeting.

6.5. Local Investment Committee and Investment Committee of UBB AD

The Local Investment Committee (LIC) was established with a MB decision by virtue of Art. 43, Para. 3 of UBB AD Articles of Association confirmed with a decision of the Supervisory Board. It takes decisions and is empowered to approve acquisitions, investments and sales/disposition of real estates in relation to collaterals on loans in Legacy and New bank portfolios and acquired assets, at the amount of at least EUR 250 000, but less than EUR 1 000 000. Decisions relating to investments are being made on the basis of separate proposals for each particular investment. The representatives at the Committee are being determined according to the rules of the Credit Committee for Problem Loans.

6. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)
6.5. Local Investment Committee and Investment Committee of UBB AD (continued)

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

The Investment Committee of UBB AD 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 or New Bank loans of value exceeding EUR 1 000 000.
The final decisions on acquisitions of and investments in real estates in line with Legacy loans are being made by UBB's Management Board.

6.6. Projects Oversight Committee (POC) of UBB AD

POC is authorized to review, prioritize and approve all projects and project proposals including their budget and capacity requirements. It meets quarterly (ad-hoc meetings are possible) and approves the IT Masterplan and changes related to it.
POC decides on the strategic projects and priorities for the upcoming year before finalization of the APC cycle and follows-up on the progress and requests for status updates during the execution of the projects. It also decides on scope, time and resources for all projects and is the only body (except MB) that can approve related changes.
POC reviews and monitors the project portfolio's progress, takes decisions on initiation, termination, closing or postponing of projects, approves or rejects requests for a change, approves or rejects the allocation of project resources (budget and IT).

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

The total amount of annual remuneration of Executive Directors and members of the Management Board is BGN 3 228 thousand.

8. GENERAL MEETING OF THE SHAREHOLDERS AND THE SHAREHOLDER RIGHTS

The General Meeting of Shareholders (GMS) is the superior management body of UBB. The GMS defines the major trends of UBB's activities and involves all shareholders, who either personally or through their authorized representatives participate in its sessions.
The members of the Management and Supervisory Boards may participate in the sessions of the General Meeting of Shareholders, if invited, but are not entitled to vote.

8.1. Competences

The General Meeting of the Shareholders

a) amends and complements UBB's Articles of Association;

b) adopts resolutions on capital increase or decrease;

c) adopts resolutions as regards UBB's reorganization and termination upon a preliminary approval from the Central Bank;

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

8.1. Competences (continued)

d) elects and releases the Supervisory Board members;

e) determines the management commitment fee and the remuneration of the Supervisory Board as well as the period for which these are payable;

f) elects and releases the members of the Audit Committee and the management of the specialized internal audit unit;

g) after preliminary coordination with the Central Bank, elects and releases auditing companies by the Audit Committee's recommendation which are registered auditors pursuant to the Independent Financial Audit Act, have all rights and obligations as per the Independent Financial Audit Act including to perform verification and certification of UBB's annual financial statements in accordance with the applicable financial reporting standards;

h) approves the annual financial statements after certification by the auditing companies; makes decisions on profit allocation for replenishing the Reserve Fund and for payment of dividends;

i) makes decisions on the issuance of bonds;

j) upon the Central Bank's preliminary approval makes decisions on liquidation and appoints liquidators for voluntary liquidation of UBB;

k) determines the amount of management commitment fee to be provided by the members of the Management and Supervisory Boards;

l) releases from responsibility the members of the Supervisory and Management Boards;

m) makes decisions on transferring UBB's commercial enterprise;

n) decides on disposal of assets which total value during the current year exceeds half of the value of UBB's assets in accordance with the latest certified annual financial statements;

o) decides on the undertaking of commitments or providing of collateral to one person/entity or related parties which commitments' amount during the current year exceeds half of the value of UBB's assets in accordance with the latest certified annual financial statements;

p) decides also on any other issues within its competence as stipulated by the law and UBB's Articles of Association.

8.2. Convening of the Genereal Meeting of Shareholders

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

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

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

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

8.3. Quorum

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

A simple majority vote of the capital represented at the General Meeting is required except for decisions under letters "a" "b" "n" and "o" of Item 6.1 above - where a qualified majority of 2/3 of the capital is needed and under letters "c" and "m" - where the required qualified majority of capital is 3/4.

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

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

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

8.4. General Meeting of the Shareholders in 2019

The Regular General Meeting of Shareholders of UBB AD (GMS) in 2019 took place on 27.06.2019. At the GMS are taken decisions in relation to the approval of the report on the activity of UBB AD and a consolidated activity report for 2018, as well as a corporate governance statement of UBB AD for 2018 and a non-financial declaration of UBB AD for 2018, the report of the auditing companies on the annual financial report as well as on the consolidated annual financial report of UBB AD for 2018, certified by the auditors annual financial report, as well as of the certified by the auditors consolidated annual financial report of UBB AD for 2018 and the proposal of the Management Board confirmed also by the Supervisory Board of the bank for allocation of UBB AD's profit for 2018 was approved.
On 27.06.2019 the General Meeting of Shareholders of UBB AD also took a decision regarding relief of liability of the members of the Supervisory Board and of the Management Board of UBB AD concerning their activity during 2018 and accepting the report of the Audit Committee of the bank for 2018.
In 2019 one extraordinary meeting of the General Meeting of Shareholders of the bank was held on 17.12.2019. At the meeting are taken decisions regarding a change in the composition of the Supervisory Board of UBB AD: the release of Mr. Willem Hueting as a member of the Supervisory Board of UBB AD and appointment of Mr. Barak Chizi as a member of the Supervisory Board of the bank, as well as defining his mandate, his remuneration and the management guarantee of the new member of the Supervisory Board of UBB.
At the GMS on 17.12.2019 a decision was also taken for appointment of auditing companies for examination and certification of the annual financial report of UBB for 2019, preliminary coordinated with BNB in accordance with art. 76, para. 4 of the Credit Institutions Act.

Christof De Mil	Svetla Georgieva
Executive Director	Executive Director

UNITED BULGARIAN BANK AD SOFIA

Date: 13.04.2020

SEPARATE AND CONSOLIDATED NON-FINANCIAL DECLARATION OF UNITED BULGARIAN BANK AD (UBB) AS OF DECEMBER 31 2019 (In accordance with Law of Accountancy)

1. SCOPE OF ACTIVITY

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

In 2017 the Belgian bank-insurance group KBC acquired UBB from the National Bank of Greece. After the CIBANK-UBB merger the new united bank UBB became the third largest bank in Bulgaria in terms of assets of nearly BGN 11.2 billion, with approximate market share of 11% on solo level.

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

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

In 2018 Fitch Ratings upgraded UBB’s rating to A-, which is the highest rating held by a Bulgarian banking institution.

1.1. OUR GOAL AMBITION AND STRATEGY

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

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

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

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

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

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

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

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

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

1. SCOPE OF ACTIVITY (CONTINUED)
1.2. HOW WE CREATE VALUE

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

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

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

Our clients, employees and offices

Clients	
Retail	**906 522**
Business	**68 827**
Employees	2 801
Bank branches and offices	270

UBB's long-term credit rating

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

Our shareholders

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

Generation of income

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

Risk of hedging and payment of costs

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

1. SCOPE OF ACTIVITY (CONTINUED)
1.3. WHAT MAKES US WHO WE ARE

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

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

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

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

Our strengths
A well-developed strategy that allows us to respond immediately to the needs of our customers
Successful experience in achieving core business results
Strong capital position and strong liquidity
Embedded in the economy

Our challenges
Macroeconomic environment characterized by low interest rates, demographic aging, increased nervousness and uncertainty
Strict regulation in areas such as customer protection and solvency
Competition, new market players, new technologies and changing customer behavior
Cybercrime, the public image of the financial sector

2. THE ENVIRONMENT WE OPERATE

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

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

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.1. THE WORLD ECONOMY AND GEOPOLITICAL CHALLENGES

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

For Bulgaria's economy and banking sector 2020 will run with the expectation of a change in the interest cycle and more likely a slowdown in economic growth, given the signals from the surrounding external economic environment. Weaker external demand will likely weigh on export performance, while labor shortages will constrain job creation – thereby lowering private consumption and to a lesser extent investment.

For the banking system in Bulgaria 2020 will pass under the sign of expected membership in ERM II and the banking union. Supervisory requirements for compliance with capital adequacy regulations and asset quality will be strengthened as a result of ECB monitoring of their sound performance.

This year will propose challenges for banks related to raising capital buffers from BNB and corrective capital measures following the results of the asset quality review and the ECB stress test.

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

The risk of a slowdown in the economy and the associated pressure on banks' revenues will be relevant in 2020. We monitor our long-term and strategic planning our capital and liquidity positions are capable of withstanding the negative scenarios.

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

2.2. COMPETITION AND TECHNOLOGICAL CHANGE

We do our business in a highly competitive environment. Our competitors are also affected by technological changes and changing customer behavior.

In terms of innovation and new technologies, the Bank's primary task is to adapt to consumer behavior. Consumers want immediate interaction, information that is available 24 hours a day and 7 days a week and expect bundled service. Second, the Bank focuses on upgrading existing legacy server systems (as they are often reluctant to incorporate innovative direct customer interaction solutions) and establish management, training and leadership within companies to stimulate and support innovative thinking. Thirdly, in the process of innovating, not give up on our core strengths: the proximity of physical branches and personal attitude to customers (many of them value this very highly), our professional knowledge and advice, discretion and trust. We must strive for "innovation with a human face".

For all banks and insurance companies in the sector, innovation is vital. First of all, because our clients' desire is that financial services (like many other services they are used to) be offered through innovative, digital and appropriate solutions.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)
2.2. COMPETITION AND TECHNOLOGICAL CHANGE (CONTINUED)

More and more new entrants are entering the financial sector - both technology innovators and large tech companies. Consumers, especially the younger generations, make it clear that they have no problem thinking about buying banking and insurance products from, for example, Google, Facebook and Amazon, if they offer better solutions than their traditional bank or insurance company. Innovation is already a reality. So ignorance would be unwise. 5 years ago, 5% of KBC banking product sales were digital. Only 5 years later, this percentage is 40%. So, innovation is here and it's amazingly fast-paced.

The future in banking is related to the integration of robots in operations and the use of mobile phones for bank transfers. The digitalization of financial services will continue in the future. Customers value our consulting services and human person highly, but at the same time, they want to be able to buy all our products digitally as well. We expect the trend of "beyond banking and insurance" (or platforming) to be imposed. Financial sector participants will offer more and more non-banking digital services. This responds to the desire of customers to have a one-stop shop in the digital world. People are tired of many applications and highly value one application that combines multiple services.

Multibanking (offering you the ability to manage your accounts in multiple banks with 1 app) launched by UBB is a clear example, but only a first step. Today, at KBC, customers can even buy bus tickets through their banking application. Offering this opportunity, KBC is currently the second largest bus ticket seller after the bus company, with the sole purpose of convenience.

Additionally, DZI use drones to fly over farmland to measure damage after a storm. A drone sensor is also being installed, which also analyzes the degree of fertilization of the land and provides advice to our farmers on how and where to fertilize.

In all this innovative and technological interaction, data is key. Data is the new electricity. The combination of innovative technology with data, computing power and artificial intelligence will create a whole new dimension in customer service and customer experience. People expect to receive suggestions that are of practical importance to them.

The risks for the security of bank accounts and the operations of digitalization of banking services are an essential part of risk regulation. Regulators are trying in every way to bring digital abuse under control, and the banking sector is expected to set an example in this area. Because if there is one strength that our sector has built up in so many decades, it is trust. Our business is trust. So, the industry must do its utmost to maintain this safety and security for customers. This is, for example, the reason why we at KBC have decided to use data intelligently to offer our customers much better and more personalized solutions. At the same time, we have decided that no data-related projects will be outsourced. We do it ourselves and we have internally built the skills and teams to do it. The safety and security of our customers' data is of paramount importance to us.

2.3. REGULATION

The major legislative amendments follow the reform agreed between the European Parliament and Member States on the core elements of reforming the European supervision in the areas of EU financial markets. The agreement, which is an important step to ensure a fully functioning capital markets union, reinforces the role and powers of the European Supervisory Agencies, including that of the European Banking Authority, by strengthening its role in **the area of anti-money laundering**.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)
2.3. REGULATION (CONTINUED)

In response, in 2019 the, the Bulgarian legislator continues the process for alignment of the financial institutions in compliance with the regulatory requirements imposed with Directive (EU) 2015/849 also known as 4 AML/ Terrorism Financing Directive. The legislator has revised the anti-money laundering legislation, including secondary acts to strengthen the supervisory framework in **the area of anti-money laundering**. The numerous legislative revisions impose additional requirements for organization, management and internal control in the credit institutions aiming to improve the banking system with best European practices.

Ensuring data protection compliance remains a living legislative area. The numerous revisions of the **Personal Data Protection Act** are substantial and they fully implement GDPR in the local legislation. The ratification of the Protocol amending the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data significantly increases the level of data protection under the Convention 108 to address the data processing by the development of technology and globalization. UBB has adjusted its practice to address the right of persons not to be subject to a decision based solely on automated processing. UBB follows the adopted internal plans for implementation of the new legislation.

To ensure compliance in **the area of the financial instruments market** the Bulgarian legislator has amended the Law on financial instruments market to address the spirit of REGULATION (EU) No 909/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

The changes to the **Act on the activities of collective investment schemes and other collective investment undertaking** introduce new European measures for collective investment schemes which relate **to money market funds** and the application of Regulation (EU) 2017/1131, for example with regard to the conduct of stress tests. The act clarifies that the restriction for a management company acting on behalf of all the collective investment schemes or other collective investments it manages, not to acquire significant voting shares which would enable it to exercise a significant influence on the management of an issuer, refers to direct or indirect ownership of 20% or more of the votes in the general meeting of an issuer. There are change in the rues for management and representation of managing companies and transition six-month period to ensure compliance. A new requirement is introduced for investment firms to provide and implement adequate and effective internal channels and procedures for reporting by their employees on actual or potential breaches. The changes introduce new requirements on the activities and the services of the investment intermediary.

The main amendments in the **Recovery and Resolution of Credit Institutions and Investment Firms Act** define the four sources for financing of the Funds for Restructuring of the Banks and the Fund for Restructuring of the Investment Intermediaries. The amendments, in addition, recognize BNB as a depository of the funds of the Fund for Restructuring of the Investment Intermediaries.

The legislator transposes the European understanding of **unfair clauses concept** by means of supplement of the consumer protection legislation.
UBB is reviewing the latest guidelines for implementation of the PSD2 in order to ensure compliance and implementation of appropriate security measures for operational and security risks.

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

2. THE ENVIRONMENT WE OPERATE (CONTINUED)
2.4. CYBER RISK/INFORMATION SECURITY

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

3. OUR EMPLYEES, CAPITAL NETWORK AND RELATIONSHIPS

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

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

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

This is why we focus on new mentoring programs, participation in meetings and trainings, programs for newly hired employees, developing leadership skills and competencies. In 2019, we started the "Know the work of your Colleagues" program, which is a scheme for temporary transfer of employees from the structural units of the Head Office to bank branches and the vice versa, aiming to familiarize employees with the specific responsibilities of their colleagues, as well as the workflow and its challenges.

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

The world is changing, hence in order to take a real role in social life and to be able to respond to new needs, expectations and desires of all our stakeholders we should act in a purpose-driven manner, while caring for and attending to society. We want to give a clear sign to society that, as an employer, we treat our employees in an equal, fair and responsible manner and that our relationships are based on mutual trust and respect. The focus is on promoting responsible employee behavior, with the belief that we will be more effective in our operations and will contribute to making socially responsible ambitions come true.

As at 31.12.2019 the employees split per type of employment:

Full-time	**99.6%**
Part-time	0.4%

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

Remunerations in UBB are determined based on work on an 8-hour business day for a 5-day working week. In 2019, the Bank continued to care for the development and retention of employees, providing them with the necessary professional training and remuneration, which are consistent with their duties and responsibilities, as well as with their performance. The Bank provides various financial incentives for employees for high performance and good results at specific periods.

We care for our employees and so UBB provides them with additional health insurance, life insurance, supplementary pension insurance and different payments for personal events (marriage, childbirth etc.).

In its efforts to constantly improve the effectiveness UBB assesses the performance and competencies of the staff each year.

In 2019 the average hours of training per employee is 16.65.

The innovations we made in the training system in 2019 are:

- Soft Skills Training Section accessible to all UBB employees in the Head Office and in the branch network. Currently available topics are Time Management and Presentation Skills.
- Mentor Manager - an option that allows mentors and managers to monitor the progress of the employees they are responsible for. The Mentor Manager also allows each employee to gain a general understanding of all the tests he or she has taken and the respective grades for them, as well as the materials and topics that they have become familiar with.
- We also started a training program in the Branch Network "Managerial Skills and Sharing Good Practices", which covered all managers in the Branch Network. The topics covered in the cascading training were Management Schools, Types of Employees, Motivation, Delegation and Feedback. The Trade Union of the bank employees at UBB is registered at the Court as a non - profit organization formed in order to settle the working and social relations between the employees of UBB and their Employer.

The activity of the Trade Union is stipulated in its Statutes and Rules of the activity. In accordance with the Statutes, the Management bodies are General Assembly, Management Board and Control Board. The Management Board and the Trade Union sign a collective labour contract.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE

4.1. CORNERSTONES OF OUR STRATEGY

Our strategy is based on four pillars:

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

We have developed an internal program 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.

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

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 analysing 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.

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.

In 2019 we were able to make confident steps towards ensuring the bank's position as innovative market leader, by introducing a number of innovations both internally – RPA (robots performing routine credit administration activities), Chatbot (assisting employees in the branch network) and externally, aimed at our clients – opening of the SurfStudio Innovation Laboratory, introduction of multibanking, creating opportunities for applying for consumer loan through mobile banking, video banking servicing and counselling for business customers, building and launching of the Ubbforhome platform, digitally supporting customers in the process of choosing suitable housing and many others.

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 ARE FOCUSING ON SUSTAINABLE AND PROFITABLE GROWTH

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

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)
4.3. OUR ROLE IN THE SOCIETY: TO COMPLY WITH THE SOCIETY'S EXPECTATIONS

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

We carry out our socially responsible activities by:

Reducing our negative impact on society

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

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

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

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

Increasing our positive impact on society

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

For another consecutive year, we are focusing our efforts in four main areas:
- Financial literacy
- Promoting entrepreneurship
- Health
- Environment

Promoting Financial literacy

UBB has traditionally supported a number of initiatives in these areas, continuing to follow a prearranged and approved annual plan. In 2019, we have awarded scholarships under the Ready for Success program to the because Foundation in the area of financial literacy. The program supports the education of children and young people without parents raised by relatives or in social homes. Their ranking is a success - for exceptional achievement, motivation and commitment in learning.

During the year, we once again joined the European Money Week, a joint initiative of the European Banking Federation and the Association of Bulgarian Banks. Within the framework of the European Money Week, we organized open lessons and student and student visits to the Bank's headquarters.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)
4.3. OUR ROLE IN THE SOCIETY: TO COMPLY WITH THE SOCIETY'S EXPECTATIONS (CONTINUED)

Promoting Financial literacy (continued)

In 2019 we continued our long-term initiative to make banking terms easier and more accessible to a wide audience, and created new series in the UBB Academy short video series.

As a member of the UN Global Compact, for another year we have joined the initiative "I am Proud of my Parents' Work." The idea of the project is to use programs and games to show children why their parents' work is important and how one day in a real work environment goes. Due to the great interest in the event and its success in 2018, two editions of the initiative were organized for the first time in 2019 – in spring and autumn. In this way we were able to welcome more than 200 young people at the UBB headquarters.

Promoting entrepreneurship

In 2019 we financed the implementation of two programs that supported the promotion of entrepreneurial culture among students and youth - ABLE Activator was a pilot program of the Association of Bulgarian Leaders and Entrepreneurs and welcomed 31 young people from 5 teams and Challenge You by UBB and Junior Achievement Bulgaria gave way to 61 young people from 23 teams who prepared and defended their own business ideas before a jury within a three-month program.

Promoting Healthy lifestyle

Major initiatives promoting active lifestyles among UBB employees and partners were upgraded in 2019. UBB Games is being implemented for the 11th consecutive time, and the UBB Tennis Tournament has become the largest tennis tournament for non-professionals within only its second edition. It was attended by 62 men and 20 of mixed doubles.

Protecting Environment

In terms of its commitment to the environment and the country in which we operate, UBB has completed perhaps its largest cause so far - the afforestation of nearly 4000 trees.

Within three months UBB employees were required to carry out at least one green activity (hand over trash for recycling, bring an electronic device to be incorporated into the circular economy, or use transportation to commute to work other than by car) and be able to "win" a tree for afforestation.

A total of 66 701 kg of trash were recycled, 169 electronic devices were collected for circular economy purposes and over 1297 kg of carbon dioxide were saved thanks to the eco-friendly transportation that UBB employees chose to get to work.

By the end of 2019 with joint efforts, dozens of initiatives and hundreds of volunteers, UBB is proud of its 9 own newly planted forests in Bulgaria. They are located in every region of Bulgaria in which the Bank operates - Sofia (South Park 2 and Dolni Bogrov), Plovdiv, Varna, Burgas, Ruse, Vratsa, Veliko Turnovo, Blagoevgrad, Stara Zagora. They were planted with exactly 3290 trees of various types, adapted to the soil on which they will grow.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)
4.4. FOCUS ON RESPONSIBLE AND ETHICAL BEHAVIOR

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

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

As a first step in building a corporate culture of ethical behavior, a separate segment is dedicated to the initial training of newly hired employees. In addition, staff surveys are planned to assess the degree of awareness of the importance of the topic and incorporate the principles of responsible and ethical behavior into daily operations.

In the area of responsible behavior, throughout 2019, we continued to provide trainings for the Bank's branch network aimed at paying attention to employees (especially those working directly with clients) of KBC's principles of responsible customer service and ways of their application.

4.5. MEASURES

Complaints management

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

Any complaint received at UBB is registered and sent for verification analysis and opinion to the relevant competent unit. All complaints from clients related to personal data are registered and directed to the Products and Segments Unit at the Retail Banking and Digital Sales Directorate, and clients' requests for performance of data subjects' rights as per GDPR, are referred for handling by Static Data, Monitoring and Distrains Unit at Operations Directorate, always with the involvement and assistance of the Data Protection Officer. All complaints related to unauthorized transactions are directed to the Card Center and support digital services. Complaints related to payments corrections write-offs are sent to the Director of Retail Banking and Digital Sales as well as to the respective Directorate and in case of unauthorized transactions to the Dispute Resolution Commission under Art. 22 of the Rules for Solving Complaints of UBB Clients.
The UBB customer complaint handling rules are a shared acceptance basis for all competent units for more effective conflict resolution and prevention. The total number of complaints received in 2019 at UBB is 6 655.

Anti –corruption Program

Criteria used to assess the risk of corruption are provided for in UBB Anti-corruption program and are set up in conjunction with the national legal framework for the prevention of corruption and fraud and conflict of interest based on the British Bribery Act (with Territorial Effect) introduced in 2011 and implemented by Regulation 19 (Anti-Corruption Program) of the KBC Group.

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

Risk assessment

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

Key external risks:

- Risk coming at country level (high level of corruption bad legislation low transparency). For example: The countries with less than 50 points in accordance with the index of the: Transparency without borders" (http://www.transparency.bg/bg/), excluding Bulgaria, are considered as higher corruption risk http://www.transparency.bg/en. The exception provided for Bulgaria should not be applicable to: Politically Exposed Persons (PEPs); businesses that are associated with higher corruption risk (as per a list); parties involved with cash intensive activities, which are still considered to be higher risk.
- Sectoral Risk (some departments of a financial institution or cross-border activities are more exposed; risks are different for a bank as compared to other activities as leasing, investments services or a factoring company, etc.).
- Transaction Risk (charitable contributions, licenses and permits, public procurement).
- Business Opportunity Risk (complex projects including many intermediaries, not at market prices, no clear legitimate objective).
- Business Partnership Risk (transactions with foreign public officials, joint ventures, PEPs, agents and intermediaries).
- Due Diligence Risk (absence of due diligence on parties performing services on behalf of the Bank e.g. to establish business in a foreign market, M&A's).

Key internal risks:

- Human Resources (employee training, skills and knowledge, bonus culture, excessive risk taking).
- Monitoring and Control (Lack of monitoring, lack of reporting, lack of clear financial/ accounting controls).
- Other (Lack of clarity in procedures for hospitality, promotional expenses charitable contributions, etc., lack of anti-bribery message from the top management, specific divestment risks).

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

The Bank organizes trainings to newcomers and refreshing trainings and tests to the personnel. The number of employees trained in 2019 is as follows:

• Trainings newcomers (present trainings):
- Sessions – 30
- Number of employees invited – 624
- Number of employees who attended the trainings – 607

• E&F test (e-based)
- Number of employees invited – 2 814
- Number of employees who passed the test – 2 721
- Percentage invited employees / employees who passed the test - 97%
- None was dismissed or was at suit for corruption in 2019.

The Bank has developed mechanism for sending signals for malpractices and violations of internal rules, including corruption. The following regulations in force in UBB and are directly or indirectly linked to corruption prevention:
- Code of conduct
- Policy on gifts, entertainment, donation and sponsorship
- Whistle-blowing Rules
- Rules for prevention of money laundering/financing of terrorism
- Internal rules for inventory and non-remuneration of management mandates executed in other companies on nomination of KBC.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)
4.6. IMPORTANT NEW SUSTAINABILITY POLICIES

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

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

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

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

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

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

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

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

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

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

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

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)
4.8. OUR 'THREE LINES OF DEFENCE' MODEL

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

4.9. SECTOR – SPECIFIC RISKS

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

Existence of a robust management framework
Recording impairment charges taking risk-mitigating measures optimising the overall credit risk profile etc.

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

Existence of a robust management framework
Historical VaR method 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 the Bank will be unable to meet its payment obligations as they come due without incurring unacceptable losses.

Existence of a robust management framework
Liquidity stress tests management of funding structure etc.

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

Existence of a robust management framework
Minimum solvency ratios active capital management etc.

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

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

4.10. AIMING TO ENHANCE OUR POSITIVE IMPACT ON SOCIETY

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

4.11. 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 programs to support small and micro businesses and SMEs.

Limiting our negative impact on society

We also want to limit as much as possible any unfavorable 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 program 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 uses specialties companies for controlled destroying of scraped fixed assets. The Bank also uses a system for separate disposal of waste.

UNITED BULGARIAN BANK AD UBB SOFIA

Christof De Mil	**Svetla Georgieva**
Executive Director	**Executive Director**

Date: 13.04.2020

UBB Part of KBC Group

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Interest income		272 343	292 875	273 092	293 793
Interest expenses		(14 985)	(15 967)	(14 985)	(15 962)
Net interest income	4	**257 358**	**276 908**	**258 107**	**277 831**
Fee and commission income		126 746	128 223	133 342	136 233
Fee and commission expenses		(20 045)	(21 071)	(20 246)	(21 095)
Net fee and commission income	5	**106 701**	**107 152**	**113 096**	**115 138**
Dividend income		6 774	2 960	85	107
Net result from financial instruments at fair value through profit or loss	6	28 296	24 441	28 296	24 441
Net result from financial instruments at fair value through OCI		135	129	135	129
Net result from hedging derivatives	17	65	85	65	85
Net other income	7	1 230	9 660	1 399	1 870
Total income		**400 559**	**421 335**	**401 183**	**419 601**
Operating expenses	8	**(219 770)**	**(230 565)**	**(222 842)**	**(233 473)**
Staff expenses		(94 622)	(97 199)	(97 413)	(99 648)
General administrative expenses		(100 644)	(119 654)	(100 841)	(120 027)
Depreciation and amortisation expenses		(24 504)	(13 712)	(24 588)	(13 798)
(Impairment)/Reversal of impairment	9	**(9 242)**	**4 671**	**(10 738)**	**3 864**
On financial assets at amortised cost and at fair value through OCI		(7 131)	21 057	(8 627)	20 250
On off-balance sheet commitment		1 112	(556)	1 112	(556)
On non-financial assets		(3 223)	(15 830)	(3 223)	(15 830)
Share in results of associated companies		-	-	316	1 746
PROFIT BEFORE TAX		**171 547**	**195 441**	**167 919**	**191 738**
Income tax expense	10	(16 712)	(19 552)	(17 009)	(19 488)
PROFIT FOR THE YEAR		**154 835**	**175 889**	**150 910**	**172 250**
UBB equity shareholders		154 835	175 889	150 773	172 131
Non-controlling interest		-	-	137	119

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2020 and signed by:

Christof De Mil	**Svetla Georgieva**
Executive Director	**Executive Director**

In reference to the auditors' report:

Gergana Mihaylova	**Marry Apostolov**
Registered Auditor responsible for the audit	**Grant Thornton OOD**
Tsvetana Tsankova	**Jock Nunan**
Registered Auditor responsible for the audit	**PricewaterhouseCoopers Audit OOD**
Date: 14-04-2020	**Date:**

Одиторско дружество София Рег. № 032 Грант Торнтон ООД

Одиторско дружество София Рег. № 085 Прайсуотърхаускупърс Одит ООД

United Bulgarian Bank AD Sofia UBB

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
PROFIT FOR THE YEAR		**154 835**	**175 889**	**150 910**	**172 250**
Other comprehensive income that may be recycled to profit or loss					
Net change in revaluation reserve (FVOCI debt instruments) net of tax		7 607	(20 174)	7 607	(16 688)
Other comprehensive income/(loss) that may be recycled to profit or loss		**7 607**	**(20 174)**	**7 607**	**(16 688)**
Other comprehensive income that will not be recycled to profit or loss					
Net change in revaluation reserve (FVOCI equity instruments) net of tax		3 518	725	3 518	725
Actuarial losses		(196)	(206)	(196)	(206)
Other comprehensive income that will not be reclassified subsequently to profit or loss		**3 322**	**519**	**3 322**	**519**
Other comprehensive income/(loss), net of taxes		**10 929**	**(19 655)**	**10 929**	**(16 169)**
Total comprehensive income for the year		**165 764**	**156 234**	**161 839**	**156 081**
Attributable to UBB equity shareholders		-	-	161 702	155 962
Attributable to non-controlling interest		-	-	137	119

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2020 and signed by:

Christof De Mil
CEO

Svetla Georgieva
Executive Director

In reference to the auditors' report:

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Tsvetana Tsankova
Registered Auditor responsible for the audit

Jock Nunan
PricewaterhouseCoopers Audit OOD

Date: 14-04-2020

Date: 14-04-2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
ASSETS					
Cash and cash balances with the Central Bank	11	648 925	1 762 399	648 925	1 762 400
Due from banks	12, 33	479 281	587 628	479 281	587 628
Reverse repos with banks	12, 33	2 287 637	1 345 350	2 287 637	1 345 350
Loans and advances to customers	13	5 733 090	5 178 055	5 735 080	5 179 518
Financial assets at fair value through profit or loss	14	34 403	32 685	34 403	32 685
Financial assets at fair value through OCI*	15	962 374	1 020 637	962 375	1 020 638
Investments at amortized cost	16	1 692 632	1 027 278	1 692 632	1 027 278
Derivative financial instruments	17	1 191	9 379	1 191	9 379
Investments in subsidiaries and associated companies	18	21 368	18 893	3 560	2 776
Intangible assets	19	8 155	5 093	8 244	5 190
Property and equipment	19	108 650	100 218	108 736	100 335
Investment properties	20	126 344	128 141	136 753	138 987
Right-of-use assets	21	27 993	-	28 084	-
Deferred tax assets	22	5 119	5 575	5 238	5 572
Other assets	23	35 538	29 419	36 930	30 469
Non-current assets held for sale		-	15 277	-	15 276
TOTAL ASSETS		**12 172 700**	**11 266 027**	**12 169 069**	**11 263 481**
LIABILITIES					
Deposits from banks	24	9 644	1 178 490	9 644	1 178 490
Deposits from customers	25	8 748 996	8 172 485	8 742 660	8 163 315
Payables under repo agreements	26	1 797 115	331 619	1 797 115	331 619
Derivative financial instruments	17	10 642	5 437	10 642	5 437
Other borrowed funds	27	126 100	133 641	126 100	133 641
Current income tax liabilities		2 098	-	2 127	214
Provisions	28	12 858	15 884	12 869	15 929
Lease liabilities	21	28 010	-	28 088	-
Deferred tax liabilities	22	-	-	15	-
Other liabilities	29	60 547	41 657	61 193	42 029
TOTAL LIABILITIES		**10 796 010**	**9 879 213**	**10 790 453**	**9 870 674**
SHAREHOLDERS' EQUITY					
Share capital		93 838	93 838	93 838	93 838
Share premium		210 058	210 058	210 058	210 058
Retained earnings	30	1 012 325	1 033 378	1 013 979	1 039 117
Revaluation reserve	31	61 941	50 816	61 941	50 816
Reserve related to actuarial losses	28	(1 472)	(1 276)	(1 472)	(1 276)
TOTAL EQUITY ATTRIBUTABLE TO UBB SHAREHOLDERS		**1 376 690**	**1 386 814**	**1 378 344**	**1 392 553**
Non-controlling interest		-	-	272	254
TOTAL EQUITY		**1 376 690**	**1 386 814**	**1 378 616**	**1 392 807**
TOTAL EQUITY AND LIABILITIES		**12 172 700**	**11 266 027**	**12 169 069**	**11 263 481**

* Financial assets at fair value through OCI includes pledged under repo deals and for securing state budget funds government bonds amounting to BGN 428 698 thousand (2018: BGN 483 877 thousand).

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2020 and signed by:

Christof De Mil
CFO

Svetla Georgieva
Executive Director

In reference to the auditors' report:

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Tsvetana Tsankova
Registered Auditor responsible for the audit

Jock Nunan
PricewaterhouseCoopers Audit OOD

Date: 14-04-2020

Date: 14-04-2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

SEPARATE	Share Capital	Share Premium	Retained Earnings	Reserve related to actuarial losses	Revaluation Reserve	Total
Restated total equity as of 1 January 2018	**75 964**	-	**764 270**	**(1 024)**	**29 389**	**868 599**
Impact of business combination	17 874	210 058	93 219	(46)	40 876	**361 981**
Net result for the year	-	-	175 889	-	-	**175 889**
Other comprehensive loss for the year, net of tax	-	-	-	(206)	(19 449)	**(19 655)**
Total comprehensive income	-	-	**175 889**	**(206)**	**(19 449)**	**156 234**
Balance as of 31 December 2018	**93 838**	**210 058**	**1 033 378**	**(1 276)**	**50 816**	**1 386 814**
Balance as of 1 January 2019	**93 838**	**210 058**	**1 033 378**	**(1 276)**	**50 816**	**1 386 814**
Net result for the year	-	-	154 835	-	-	**154 835**
Other comprehensive income for the year, net of tax	-	-	-	(196)	11 125	**10 929**
Total comprehensive income	-	-	**154 835**	**(196)**	**11 125**	**165 764**
Paid dividends	-	-	(175 888)	-	-	**(175 888)**
Transactions with owners	-	-	**(175 888)**	-	-	**(175 888)**
Balance as of 31 December 2019	**93 838**	**210 058**	**1 012 325**	**(1 472)**	**61 941**	**1 376 690**

CONSOLIDATED	Share Capital	Share Premium	Retained Earnings	Reserve related to actuarial losses	Revaluation reserve	**Total attributable to UBB equity shareholders**	Non-controlling interest	**Total**
Restated total equity as of 1 January 2018	**75 964**	-	**760 736**	**(1 024)**	**25 903**	**861 579**	**409**	**861 988**
Impact of business combination	17 874	210 058	107 737	(46)	40 876	**376 499**	-	**376 499**
Net result for the year	-	-	172 131	-	-	**172 131**	119	**172 250**
Other comprehensive loss for the year, net of tax	-	-	-	(206)	(15 963)	**(16 169)**	-	**(16 169)**
Total comprehensive income	-	-	**172 131**	**(206)**	**(15 963)**	**155 962**	**119**	**156 081**
Reversal of goodwill	-	-	(1 487)	-	-	**(1 487)**	-	**(1 487)**
Changes in non-controlling interest	-	-	-	-	-	-	(274)	**(274)**
Transactions with owners	-	-	**(1 487)**	-	-	**(1 487)**	**(274)**	**(1 761)**
Balance as of 31 December 2018	**93 838**	**210 058**	**1 039 117**	**(1 276)**	**50 816**	**1 392 553**	**254**	**1 392 807**
Balance as of 1 January 2019	**93 838**	**210 058**	**1 039 117**	**(1 276)**	**50 816**	**1 392 553**	**254**	**1 392 807**
Net result for the year	-	-	150 773	-	-	**150 773**	137	**150 910**
Other comprehensive income for the year, net of tax	-	-	-	(196)	11 125	**10 929**	-	**10 929**
Total comprehensive income	-	-	**150 773**	**(196)**	**11 125**	**161 702**	**137**	**161 839**
Changes in non-controlling interest	-	-	(23)	-	-	**(23)**	-	**(23)**
Paid dividends	-	-	(175 888)	-	-	**(175 888)**	(119)	**(176 007)**
Transactions with owners	-	-	**(175 911)**	-	-	**(175 911)**	**(119)**	**(176 030)**
Balance as of 31 December 2019	**93 838**	**210 058**	**1 013 979**	**(1 472)**	**61 941**	**1 378 344**	**272**	**1 378 616**

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2020 and signed by:

Christof De Mil **CFO**	**Svetla Georgieva** **Executive Director**

In reference to the auditors' report:

Gergana Mihaylova **Registered Auditor responsible for the audit**	**Mariy Apostolov** **Grant Thornton OOD**
Tsvetana Tsankova **Registered Auditor responsible for the audit**	**Jock Nunan** **PricewaterhouseCoopers Audit OOD**
Date: 14-04-2020	**Date:** 14-04-2020

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITY:					
Profit before tax		171 547	195 441	167 919	191 738
Adjustments for non- cash items:					
Impairment of loans and advances to customers	9	7 131	(21 057)	8 627	(20 250)
Impairment on off-balance sheet commitments	9	(1 112)	556	(1 112)	556
Impairments on non-financial assets	9	3 223	15 830	3 223	15 830
Provisions for legal cases	7	(864)	805	(850)	825
Depreciation related to fixed assets and investment property	7, 8	25 286	12 599	25 723	13 119
Amortization to intangible assets	8	1 952	3 432	1 980	3 390
Other provisions	8	(288)	(3 810)	(274)	(3 810)
Dividend income from associates companies and subsidiaries		(6 774)	(2 960)	(85)	(107)
Cashflow for operating profit before tax and before changes in operating assets and liabilities		**200 101**	**200 836**	**205 151**	**201 291**
Movements in operating assets and liabilities					
Decrease / (Increase) in receivables from banks		473 417	(1 376 032)	473 417	(1 376 032)
Increase in loans and advances to clients		(577 518)	(86 707)	(579 886)	(104 187)
(Increase) / decrease in trading securities		(1 718)	567 436	(1 718)	567 436
Decrease / (Increase) in derivative financial instruments		13 393	(10 801)	13 393	(10 801)
Decrease in other assets		25 026	2 356	24 617	2 455
Increase / (decrease) in deposits from banks		296 650	(160 931)	296 650	(160 931)
Increase in deposits from customers		576 511	450 408	579 345	447 908
Decrease in lease liabilities		(10 991)	-	(10 979)	-
Increase/(Decrease) in other liabilities		13 325	(20 923)	13 577	(20 935)
Income tax paid		(14 251)	(5 749)	(14 436)	(5 585)
NET CASH FLOW FROM/ (USED IN) OPERATING ACTIVITY		**993 945**	**(440 107)**	**999 131**	**(459 381)**

(Continued on next page)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

UBB
Part of KBC Group

	Note	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
CASH FLOWS FROM INVESTING ACTIVITY:					
Impact of business combination	42	-	1 070 520	-	1 070 068
Purchases of fixed assets		(43 382)	(53 384)	(43 382)	(53 406)
Purchase of intangible assets		(9 071)	(3 539)	(9 071)	(3 547)
Proceeds from sale of fixed assets		26 722	571	26 693	2 671
Acquisition of associates		(2 475)	-	(784)	-
Proceeds from sale of investments in associates		-	20 426	-	40 683
Proceeds from disposal/ (Purchase) of FVOCI debt securities		136 561	(519 169)	136 561	(518 918)
Purchase of AC debt securities		(665 316)	(140 755)	(665 316)	(140 754)
Net cash outflow from other investment securities		(66 900)	(15 647)	(66 900)	(15 647)
Dividend received		6 774	2 960	85	107
NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITY		**(617 087)**	**361 983**	**(622 114)**	**381 257**
CASH FLOWS FROM FINANCING ACTIVITY:					
Dividends paid		(175 888)	-	(176 048)	-
Long-term financing		(7 541)	(4 941)	(7 541)	(4 941)
NET CASH FLOW USED IN FINANCING ACTIVITY		**(183 429)**	**(4 941)**	**(183 589)**	**(4 941)**
CHANGE IN CASH AND CASH EQUIVALENT					
Net increase/(decrease) in cash and cash equivalents		193 429	(83 065)	193 428	(83 065)
Cash and cash equivalents on 1 January		**2 035 943**	**2 118 815**	**2 035 944**	**2 118 816**
Effect of the change in exchange rate of cash flows and cash equivalents		461	193	461	193
Cash and cash equivalents on 31 December	33	**2 229 833**	**2 035 943**	**2 229 833**	**2 035 944**
Operating cash flows related to interests fees and dividends:		**Separate**	**Separate**	**Consolidated**	**Consolidated**
Paid interests		(15 906)	(18 705)	(15 906)	(18 705)
Received interests		289 412	315 271	289 412	315 271
Paid commissions		(20 045)	(21 071)	(21 095)	(21 095)
Received commissions		126 746	128 223	133 342	136 282

These separate and consolidated financial statements have been approved for issue by the Management Board on 13.04.2020 and signed by:

Christof De Mil	**Svetla Georgieva**
CFO	**Executive Director**
In reference to the auditors' report:	
Gergana Mihaylova	**Mariy Apostolov**
Registered Auditor responsible for the audit	**Grant Thornton OOD**
Tsvetana Tsankova	**Jock Nunan**
Registered Auditor responsible for the audit	**PricewaterhouseCoopers Audit OOD**
Date: 14-04-2020	**Date:** 14-04-2020

UNITED BULGARIAN BANK UBB

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 032 ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085 ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ

1. GENERAL INFORMATION

United Bulgarian Bank AD Company Identification Number: 000694959 ("UBB" or the "Bank") is a joint stock company registered in Sofia Bulgaria 89B Vitosha Blvd. in September 1992 through the consolidation of 22 commercial banks. In June 2017 KBC Bank N.V. ("KBC") acquired 99.92 % of the Bank's capital. The consolidated financial statements present the financial position of United Bulgarian Bank AD (the Bank) and its subsidiaries as one reporting unit ("UBB or the Group").

UBB is managed by a Supervisory Board and a Management Board which as at 31 December 2019 are in the following configurations:
Supervisory Board:
1) Luc Popelier - Chairman of the Supervisory Board
2) Christine Van Rijsseghem - Member of the Supervisory Board
3) Willem Hueting - Member of the Supervisory Board
4) Franky Depickere - Member of the Supervisory Board

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

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

As result of the merger of the former CIBANK EAD into United Bulgarian Bank AD in the beginning of February 2018, the share capital of United Bulgarian Bank AD is increased by BGN 17 874 239 divided into 17 874 239 ordinary registered dematerialized voting shares with a nominal value of BGN 1 each. All new shares are subscribed by KBC Bank N.V. being the sole shareholder of the Transforming bank - CIBANK EAD. After the increase of the capital of United Bulgarian Bank AD KBC Bank N.V. holds 99.92 % of the shares in the capital of the bank (93 767 689 shares out of totally 93 838 321 shares in the capital of United Bulgarian Bank AD).

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

As at the end of 2019 the Bank's operations were conducted through a Headquarters Office in Sofia and 183 branches, 16 business centers and 71 remote workplaces throughout Bulgaria.

The number of full-time employees of the Bank as of December 31 2019 was 2 801 (2018: 2 921).

The number of full-time employees of UBB as of December 31 2019 was 2 845 (2018: 3 036).

These separate and consolidated financial statements have been approved for issue by the management Board on 13.04.2020.

2. BASIS OF PREPARATION

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

Historical cost convention: The financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value.
The financial statements were prepared on a going concern basis.
The preparation of financial statements in conformity with IFRS requires the use of certain critical and accounting estimates. It also requires management of the Bank to execute its judgment and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.4.

a) 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 2019:

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard does not significantly change the accounting treatment of leases for lessors and, therefore, its impact is not material for UBB.
IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). The new requirements have no material impact on UBB.
Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The new requirements have no material impact on UBB.
Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The new requirements have no material impact on UBB.
Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

The Bank has changed its accounting policies following the adoption of IFRS 16.

The effect of IFRS 16 on the Financial Statements of the Bank
The Bank decided to apply the Modified Retrospective Approach as at 1 January 2019 and will not recalculate the comparative figures for a year prior to the initial recognition. At initial recognition UBB measured the right-of-use at the amount equals to the Lease Liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. There was no impact on the Retained earnings. This means that 2018 and 2019 amounts related to leases are not comparable as they are based on the different accounting policies. For more information refer to Note 21.

The impact of the first time application of IFRS 16 is limited to an increase of the balance sheet on stand alone basis of BGN 39 311 thousand for Right-of-use assets and BGN 39 293 thousand for lease liability. On consolidated level the respective amounts are BGN 39 377 thousand for Right-of-use assets and BGN 39 359 for Lease liability. There was no impact on equity due to the modified approach applied by the Bank.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS OF PREPARATION (CONTINUED)

a) New and amended standards adopted by the Bank (continued)

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

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

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2019 and have not been previously adopted by the Bank have been published. The Bank is in process of assessment of the impact of those changes on the financial statements. Earlier adoption is not considered by the Bank. The UBB's assessment of the impact of these new standards and interpretations is set out below.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

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

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

IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). The new requirement does not expect to have an impact on UBB.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). The new standard will not impact UBB financials.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The Bank is in process of assessment of the impact.

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

As of 31.12.2019:

Entity name	**Ownership (%)**	**Method of consolidation**
UBB Factoring EOOD	100 %	Fully consolidated
UBB Asset Management AD	91%	Fully consolidated
UBB Insurance Broker AD	100%	Fully consolidated
East Golf Properties EAD	100%	Fully consolidated
UBB Centre Management EOOD	100%	Fully consolidated
Druzhestvo za Kasovi Uslugi AD	25%	Equity method of consolidation

2. BASIS OF PREPARATION (CONTINUED)

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

Investments in subsidiaries and equity method investments in separate financial statements

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Scope

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

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

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

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

3.2. Compliance

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

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

3.3. Changes in accounting policies

The Bank has adopted IFRS16 Leases from 1 January 2019, which has resulted in changes in the accounting policies and initial recognition of right-of-use and financial liability in the financial statements.

IFRS 16 Leases was issued in January 2016. It resulted in almost all leases being recognized on the balance sheet by lessees, 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 recognized. The only exceptions are short-term and low-value leases (ATM lease plots, rental of parking plots and rental of transformers).

In accordance with the transitional provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on 1 January 2019. Comparatives for the 2018 financial year have not been restated as the Bank has applied the modified retrospective approach.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Changes in accounting policies (continued)

The effect from adoption of IFRS 16 on the Bank's financial statements

On adoption of IFRS 16, the Bank recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate (FTP rate or borrowing cost) as of 1 January 2019. The weighted average incremental borrowing rate of the Bank applied to the lease liabilities on 1 January 2019 was 1.59% for BGN and 0.69% for EUR and 2% for cars leases.

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The first-time application of IFRS 16 affected the following balance sheet items as at 1 January 2019:

- Right of use assets – on standalone basis an increase by BGN 39 311 thousand and on consolidated basis an increase by BGN 39 377 thousand
- Lease liabilities – on standalone basis increase by BGN 39 293 thousand and on consolidated basis an increase by BGN 39 359 thousand
- There was no impact on retained earnings on 1 January 2019.

Practical expedients applied:

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- the use of a discount rate to a portfolio of leases with reasonably similar characteristics and tenor
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Bank as a Lessee

a) Accounting policies applied from 1 January 2019

Until the 2018 financial year payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis taking into consideration the extension options.

The right-of-use asset is presented separately on the statement of financial position.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payment that are based on an index or a rate;

- amounts expected to be payable by the lessee under residual value guarantees;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank as a Lessee (continued)

a) Accounting policies applied from 1 January 2019 (continued)

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease or FTP for liability in the respective currency.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Subsequently, the right-of-use assets, are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the lease term on a straight-line basis. The amortisation periods for the right-of-use assets is based on contract tenor:

- right of use for the cars 3 years
- right of use for the office building 1 - 13 years

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. The Bank applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise ATM rentals, parking plots and transformers.

b) Accounting policies applied until 31 December 2018

Leases in which substantially all risks and rewards of ownership is not transferred to the Bank as a lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

c) Extension and termination options

Extension and termination options are included in a number of property leases across the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. For critical judgements in determining the lease term, please refer to Note 3.5.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Critical accounting estimates and judgments

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

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

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

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

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

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in offices and vehicles leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

b) Classification of properties acquired from collateral foreclosure

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

c) Useful lives of property, plant and equipment and intangible assets

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

d) Fair value of financial instruments

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

e) Allowance for impairment losses and uncollectability

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Critical accounting estimates and judgments (continued)

e) Allowance for impairment losses and uncollectability (continued)

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

There are two types of impairment calculations:

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

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

f) Impairments of other receivables

Other receivables other than the Loan related (eg. On rental contracts, receivables on service contracts which are predominantly short term) are tested for impairments applying a simplified approach (due to low materiality) on annual basis in case of indications for deterioration of the financial status of the client (triggers are days past due other information indicating non performing status). In the assessment UBB takes into account the provided collateral and the received Gulatantees. All receivables with days past due above 90 are Impaired with 50% and those with DPD >180 are 100% impaired. The Expected credit losses (ECL) are reported as impairment charge on Other receivables and the latter are reported net of the ECL on the face of the BS.

g) Valuation of Investment properties

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

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

The determination of the fair value of investment property requires the use of estimates such as future cash flows from the assets and discount rates applicable to these assets. These estimates reflect the local market conditions at the date of acquisition and the date of the statement of financial position.
Annually UBB performs an impairment test for investment property in which the book value of the property is compared to the fair value less costs to sell based on an independent market valuation. Impairment is booked in case that fair value less costs to sell is lower than the book value of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Functional and presentation currency

UBB's functional and presentation currency is BGN.

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

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

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

3.6. Financial instruments

- **Recognition**

Financial assets and liabilities are recognised in the balance sheet when UBB becomes a party to the contractual provisions of the instruments.
Regular purchases or sales of financial assets are recognised on the settlement date. Regular purchases or sales are purchases or sales of financial assets that require the delivery within the time frame established by regulation or market convention.

- **Classification and measurement**

Under IFRS9 the classification of financial assets is different for debt and equity instruments. Therefore, before applying the classification requirements UBB need to define whether the financial assets is an investment in an equity instrument or it is a debt instrument both as provided by IAS 32. An equity instrument is defined as any contract that evidences a residual interest in another entity's net assets (that is all assets after deducting all of its liabilities). While the main characteristics of debt instruments that it provides a contractual right to the holder of receiving cash (in the form of interest/coupon principal repayment) and the issuer cannot exercise discretion in avoiding the settlement.
The determination is based on the substance of the instrument and not merely on its name.
Following the categorisation of the instrument as debt or equity instrument the appropriate classification model should be selected. The classification of the financial liabilities depends on the intention of UBB when the financial liabilities is issued and on the product characteristics of the financial instruments.

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

- **Financial assets – debt instruments**

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

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

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

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

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

Business model assessment

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

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

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

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

SPPI test

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

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

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

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

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

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

Business model assessment

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

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

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

SPPI test

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

- **Debt instruments at fair value**

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

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

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

Under IFRS 9 debt instruments which would normally be categorised at AC or FVOCI may be designated as measured at fair value through profit or loss at initial recognition using the fair value option (FVO) if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise. This designation is regardless of the actual business model and will result that all fair value changes of the debt instrument will be recognised in profit or loss subsequently. Once a debt instrument is classified as FVO category it cannot be reclassified into other categories.
In accordance with IFRS 9 the FVO category can only be used for accounting mismatches. The accounting mismatches can arise from measuring assets and liabilities or recognising the gains and losses on them on different bases and when designating as FVO UBB need to clearly document the reason of the accounting mismatches.

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

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

- **Financial assets – equity instruments**

Only instruments can be classified as equity instruments which passes the requirements of representing residual interest in another entity's net assets.
The basic measurement category of equity instruments under IFRS 9 is fair value through profit or loss however equity instruments can also be designated as fair value through other comprehensive income. Classification is on an instrument by instrument basis taking into consideration the substance of the instrument and not merely on its name.
For the implementation of IFRS 9 the following categories of financial assets for equity instruments were distinguished:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

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

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

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

- **Derivative instruments**

Derivative financial instruments are instruments:

(a) whose value changes in response to changes in a specific interest rate financial instrument price exchange rate price or interest rate index credit rating or credit index or other variable.

(b) which do not require an initial net investment or require a small initial net investment compared to other types of contracts that respond in a similar manner to changes in market conditions.

(c) which are payable at a future date.

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

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

- **Trading derivative**

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

- **Hedging derivatives**

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

Although UBB applied IFRS 9 as from 1 January 2018 the hedge accounting requirements is based on the requirements of IAS 39 (EU carve out version). This is because IFRS 9 provides an accounting policy choice for entities either to continue applying the hedge accounting requirements of IAS 39 pending the macro hedge accounting project being finalised or they can apply the new IFRS 9 requirements with the scope exception only for fair value portfolio hedges of interest rate risk. The accounting policy choice has to be applied to all hedge accounting and accordingly UBB decided to continue applying the IAS 39 requirements.
IAS 39 distinguishes between three types of hedging relationships i.e. fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. A hedging relationship only qualifies for hedge accounting if a number of conditions are met (see IAS 39.88). All derivative instruments have to be measured at fair value. The accounting treatment of fair value changes depends on the type of hedge.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

- **Fair value hedges**

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

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

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

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

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

- **Financial liabilities**

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

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

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

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

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

The amounts recognized in OCI relating to the own credit risk are not recycled to the profit or loss even when the liability is derecognized and the amounts are realized. Although recycling is prohibited the amounts in OCI can be transferred to other reserves within equity so entities can transfer realized amounts from OCI to retained earnings.
The category is referred to as the 'fair value option' or FVO and it is prohibited to reclassify financial instruments into or out of this category after initial recognition. Contrary to IAS 39 the criteria for designating financial liabilities at fair value is different than for financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

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

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

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

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

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

- **Reclassification**

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

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

IFRS 9 has very strict requirements for the reclassification of debt instruments which is linked to change in business model. According to the standard an entity shall reclassify financial assets into new business model when and only when there is a change in an entity's business model for managing financial assets. In all other circumstances reclassification is prohibited.
Changes in business model must be determined by the entity's senior management as a result of external or internal changes. This must be significant to the entity's operations and demonstrable to external parties. Such event will be very infrequent and normally will occur only when an entity either begins or ceases to perform an activity that is significant to its operations for example when the entity has acquired disposed of or terminated a business line.
Once there is a change in an entity's business model then financial assets shall be reclassified prospectively from the reclassification date. The entity shall not restate any previously recognized gains losses or interest. The reclassification date is the first day of the first reporting period following the change in business model. The change in the objective of the entity's business model must be effecteve before the reclassification date.

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

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

- **Reclassification of financial liabilities**

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

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

- **Impairement of financial assets**

Background

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

- Financial assets that are measured at amortised cost;
- Debt instruments that are measured at fair value through other comprehensive income;
- Loan commitments that have been issued and are not measured at fair value through profit or loss;
- Financial guarantees given that are not measured at fair value through profit or loss;
- Lease receivables recognised by the lessors (in scope of IAS 17); and
- Contract assets (in scope of IFRS 15)

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

Measurement of ECL

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

Definition of default

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

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

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

The ECL is calculated in a way that reflects:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial instruments (continued)

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

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

Significant increase in credit risk

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

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

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

3.7. Derecognition

3.7.1. Financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Derecognition (continued)

3.7.1. Financial assets (continued)

When UBB has transferred its contractual rights to receive cash flows from an asset and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset the asset is recognised to the extent of UBB's continuing involvement in the asset.
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that UBB could be required to repay.

3.7.2. Financial liabilities

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

- **Financial liabilities - Financial guarantees and LC**

Financial guarantee contract is one that that requires UBB to make specified payments to reimburse holders for losses they incur because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
The letter of credit is an irrevocable commitment of the Bank to pay the seller in a commercial transaction in strict conformity to the terms and conditions set in the letter of credit upon its opening.
Such financial guarantees and letters of credit are provided to banks financial institutions and other clients as a financial protection related to specified payments that the holder may be required to settle.
Financial guarantees and letters of credit are recognised initially in the financial statements at fair value and is subsequently measured at the higher of (a) the amount determined in accordance with the impairment provisions of IFRS 9 and (b) the amount initially recognised less when appropriate cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15.

3.8. Offsetting of financial instruments

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

3.9. Fair value measurement

- **Fair value definition**

UBB measures at Fair value its financial instruments such as derivatives and HFT / FVOCI debt and equity instruments at the reporting date. The Bank also disclosed the fair values of financial instruments measured at amortised cost and investment properties measured at cost less accumulated depreciation and accumulated impairment losses.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Fair value measurement (continued)

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

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

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

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

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

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

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

- **Fair Value Hierarchy**

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

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

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available except in very specific circumstances defined by IFRS 13. Level 1 fair value measurements are also referred to as mark to market valuations.
- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. If the asset or liability has a specified (contractual) term a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 fair value measurements are often based on a valuation technique (mark to model valuation) using observable inputs. The notion “observable valuation inputs” is further defined in 1.2.1.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Fair value measurement (continued)

- **Level 3** inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available thereby allowing for situations in which there is little if any market activity for the asset or liability at the measurement date. However the fair value measurement objective remains the same ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability including assumptions about risk. Level 3 fair value measurements are often based on a valuation technique (mark to model valuation) using at least one unobservable input that is significant to the entire fair value measurement or using a valuation technique for which the aggregate effect of unobservable inputs is significant to the entire fair value measurement.

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

In case that an active market exists published price quotations have to be used to measure the financial asset or financial liability.

In case that no published price quotations are currently available a valuation technique has to be applied. Hereby the use of observable parameters needs to be maximized whereas the use of unobservable parameters needs to be minimized.

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

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

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

- **Market value adjustments**

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

The accounting standards require the use of bid prices for long positions and ask prices for short positions applied to net open positions and impose adjustments in case of mid or stale prices illiquid markets or the use of model prices instead of market quotes. IFRS does not allow for adjustments solely to reflect the impact on market price of 'dumping' large holdings in the market (the so-called block discounts).
Market Value Adjustments are applicable for all trading and banking book positions that are measured at Fair Value with value changes reported either through profit and loss or Other Comprehensive Income. This encompasses positions classified as Fair Value Through P&L (FVPL) including financial instruments subject to the Fair Value option and Fair Value Through Other Comprehensive Income (FVOCI).
Market Value Adjustments cover close-out costs funding costs model linked valuation adjustments and counterparty exposures as well as transaction specific adjustments.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10. Property, plant and equipment

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

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

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

3.11. Intangible assets

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

The applicable annual amortisation rates are as follows:

	Annual depreciation rates (Useful life)
Software	20% (5 years)
Patents, licenses, trademarks and trade rights	20% (5 years)
License - Core banking system	12% (8 years)

3.12. Investment property

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

Upon their initial acquisition investment properties are measured at acquisition cost being their fair value (or in case of cost not being the FV for repossessed collateral the initial recognition is done at FV) at that date determined by an independent valuator. Subsequently investment properties are measured using the „cost model” i.e. the price of acquisition less any accumulated depreciation and accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Investment property (continued)

If there are indications for impairment of a specific investment property UBB determines its recoverable amount being the highest of: the value in use and the fair value less by costs of sale of the investment property. The carrying amount of the property is decreased to its recoverable amount with the difference recognised as impairment in the Income Statement. Impairment loss recognised in the previous years is recovered through the Income Statement in case there are subsequent changes in the forecasts for defining the recoverable value. Subsequent costs are capitalised only when the existence of future economic benefits are presumable and the expenses can be reliably estimated. All other repairs and maintenance costs for the investment properties are expensed as at the moment of occurrence. The investment properties are depreciated over their useful life which for buildings is set at 33.3 years, for the equipment at 5 years and land is not depreciated.

3.12.1. Valuation of investment property

Investment property (being a repossessed collateral or Investment property acquired in the normal bank operation) is measured initially at acquisition cost representing their fair value at the acquisition date. The fair value of investment property is determined by independent real-estate valuation experts by using generally accepted valuation methods. Such methods include the revenue method and the cash flows discount method. In some cases fair values are assessed on the basis of recent transactions with similar property in the same location and condition to that of the UBB's assets (market analogues method).
The determination of the fair value of investment property requires the use of estimates such as future cash flows from the assets and discount rates applicable to these assets. These estimates reflect the local market conditions at the date of acquisition and the balance sheet date.
UBB tests for impairment its investment property annually by comparing the book value of the property with its fair value less costs to sell based on an independent market valuation.

3.13. Repossessed collateral

Repossessed collateral represents non-financial assets acquired by UBB in settlement of overdue loans. The assets are initially recognised at fair value when acquired and presented as investment properties or inventories within other assets depending on their nature and the intention in respect of recovery of these assets and are subsequently measured in accordance with the accounting policies for these categories of assets.

3.14. Impairment of non financial assets

When UBB prepares financial statements it ensures that the carrying value of the non-financial asset does not exceed the amount that could be obtained from either using or selling it ('recoverable amount'). UBB assesses at each reporting date whether there are indications that an asset may be impaired. Indications that an impairment loss is required may stem from either an internal source (e.g. the condition of the asset) or an external source (e.g. new technology or a significant decline in the asset's market value). If any such indications exist or when annual impairment testing for an asset is required UBB makes an estimate of the asset's recoverable amount.
The recoverable amount is defined as the higher of the value in use and the fair value less cost to sell. Value in use is defined as the discounted future cashflows expected to be derived from an asset or a cash-generating unit.
The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by valuation models quoted share prices for publicly traded subsidiaries or other available fair value indicators.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15. Tax

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

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

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

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

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

3.16. Provisions, contingent liabilities and contingent assets

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

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance sheet date.

When the effect of time is material the amount recognised as a provision is the net present value of the best estimate.

Due to its inherent nature a provision requires management judgement regarding the amount and timing of probable future economic outflows.

Provisions for future operating losses are not recognised.

3.17. Retirement benefit provisions

Retirement benefit provisions represent the present value of UBB’s obligation to pay benefits to its employees upon retirement. Pursuant to the provisions of the Labour Code every employee is entitled to compensation amounting to two or six gross salaries upon retirement depending of the length of service.

Provisions are recognised when there is a legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation. Provisions are accrued annually on the basis of a valuation of an independent licensed actuary using personnel statistic data.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18. Interest income and interest expense

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

3.19. Fee and commission income

Most net fee and commission income falls under the scope of IFRS 15 (Revenue from Contracts with Customers) as it relates to the services that UBB provides to its clients. For the recognition of revenue UBB identifies the contract and defines the promises (performance obligations) in the transaction. Revenue is recognised only when UBB has satisfied the performance obligation. They comprise mainly fees charged on transactions performed at the teller’s desk and on money transfers, bank insurance, credit transactions, guarantees and other services offered by UBB. Fees and commissions that are an integral part of the effective interest rate on a financial asset or liability are presented as interest income or expense.

Loan processing and management fees as also other loan-related one-off fees are not taken into account when calculating the effective interest rate as they represent a separate service. Such fees are recognised when occur and presented as Net fee and commission income in the period to which they relate.

3.20. Rental income

Rental income on properties leased out under operating leases is recognised in accordance with IAS 17. Revenue is recognised to the extent that it is probable that the economic benefits will flow to UBB and the revenue can be reliably measured. The Bank recognises rental income on straight line basis.

3.21. Operating lease – Bank as a Lessee

Expenses on contracts which are out-of-scope of IFRS 16 are reported in the income statement as rental expenses. The advanced payments under operating lease contracts for which the benefits are expected to be generated in subsequent periods are deferred and recognised in the period in which the benefits are realised.

The accounting policy related to Leases (Bank as Lessee) is included in Note 3.4.

3.22. Bank as Lessor

Leases where UBB does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the rental income from that asset. The rental income from operating lease’ contracts is recognised on a straight-line basis over the lease term.

3.23. Share capital

The share capital of UBB is stated at the nominal value of shares issued and subscribed by UBB. Any other additional proceeds from the sale of shares over their nominal value are reported in statutory reserves.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. NET INTEREST INCOME

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
A. Interest and similar income				
Deposits placed with banks	1 504	1 572	1 504	1 572
Loans and advances to customers	223 009	248 535	223 759	249 457
Financial assets at fair value through profit and loss	391	281	391	281
Financial assets at fair value through other comprehensive income	19 250	20 427	19 250	20 427
Financial assets at amortized cost	25 080	19 956	25 080	19 956
Interest income from repo transactions by MFIs and other clients	-	80	-	80
Other assets	22	-	22	-
Interest income on liabilities	3 087	2 024	3 086	2 020
	272 343	**292 875**	**273 092**	**293 793**
B. Interest expenses and similar charges				
Deposits from banks	(915)	(1 970)	(915)	(2 454)
Deposits from customers	(4 657)	(5 810)	(4 657)	(5 321)
Long term borrowings	(1 792)	(1 561)	(1 792)	(1 561)
Hedge and trading derivatives	(1 320)	(1 300)	(1 320)	(1 300)
Lease liabilities	(224)	-	(224)	-
Interest expense on assets	(6 077)	(5 326)	(6 077)	(5 326)
	(14 985)	**(15 967)**	**(14 985)**	**(15 962)**
TOTAL	**257 358**	**276 908**	**258 107**	**277 831**

The interest income on impaired assets for 2019 is 9 241 thousand (2018: 11 749 thousand).

5. NET FEE AND COMMISSION INCOME

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
A. Fee and commission incomes				
Transfer of funds and cash transactions	34 641	34 056	34 636	34 049
Service fees of customer accounts	29 412	29 012	29 412	29 011
Card-related services fees	28 478	29 043	28 478	29 043
Loans and advances to customers	10 986	11 387	11 555	11 762
Guarantees and letters of credit	2 965	3 009	2 965	3 009
Fee from servicing budget organizations	4 189	7 161	4 189	7 161
Fiduciary/custodian activities	1 272	872	7 308	931
Bank insurance fees	12 085	10 696	12 085	10 696
Revenue from valuation of properties	799	832	799	832
Fees safety vault	415	460	415	460
Other fees and commissions	1 504	1 695	1 500	9 279
	126 746	**128 223**	**133 342**	**136 233**
B. Fee and commission expenses				
Card-related services fees	(12 519)	(12 931)	(12 519)	(12 931)
Loans and advances to customers	(10)	(22)	(10)	(22)
Guarantees and letters of credit	(2 296)	(1 962)	(2 296)	(1 962)
Transfer of funds and cash transactions	(1 446)	(1 674)	(1 446)	(1 674)
Service fees of customer accounts	(37)	(203)	(37)	(203)
Expenses on valuation of collateral on loans	(1 280)	(948)	(1 280)	(948)
Insurance expenses	(1 072)	(1 538)	(1 177)	(1 538)
Other fees and commissions	(1 385)	(1 793)	(1 481)	(1 817)
	(20 045)	**(21 071)**	**(20 246)**	**(21 095)**
TOTAL	**106 701**	**107 152**	**113 096**	**115 138**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

6. NET RESULT FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Net result from financial instruments Held for Trading				
Gains / (losses) on foreign exchange				
Net gains /(losses) from FX derivatives	15 530	15 052	15 530	15 052
Net gains /(losses) on foreign exchange	13 975	11 637	13 975	11 637
Position in foreign assets / liabilities	(1 438)	(1 710)	(1 438)	(1 710)
	28 067	**24 979**	**28 067**	**24 979**
Gains / (losses) on interest rate instruments				
Government and corporate securities	456	(40)	456	(40)
Swap contracts	-	159	-	159
Mutual funds	(227)	(657)	(227)	(657)
	229	**(538)**	**229**	**(538)**
TOTAL	**28 296**	**24 441**	**28 296**	**24 441**

7. NET OTHER INCOME

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Gains/Loss on disposal of fixed assets	2 843	3 230	2 843	3 221
Rental income	5 074	3 389	5 158	3 486
Income from operational events	150	164	150	164
Income from sale of associates	-	8 937	-	1 085
Other operating income	593	1 621	1 597	2 312
Direct costs of acquired properties	(2 817)	(2 389)	(3 323)	(2 693)
Expenses for problem loans	(264)	(117)	(264)	(117)
Expenses from operational events	(945)	(517)	(945)	(517)
Expenses related to collateral on loans	(881)	(436)	(881)	(436)
Provisions for legal cases	864	(805)	850	(825)
Depreciation of investment property	(2 734)	(2 319)	(3 115)	(2 711)
Other	(653)	(1 098)	(671)	(1 099)
TOTAL	**1 230**	**9 660**	**1 399**	**1 870**

8. OPERATING EXPENSES

a) Staff expenses

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Wages and salaries	(68 799)	(70 931)	(70 859)	(72 812)
Social security costs	(11 681)	(11 713)	(12 033)	(12 005)
Bonuses and other compensation expenses	(8 153)	(11 728)	(8 413)	(11 882)
Other staff costs	(6 277)	(6 637)	(6 382)	(6 759)
Provision for staff related restructuring charge/reversal	520	4 354	512	4 354
Pension costs - defined contribution plans	(232)	(544)	(238)	(544)
TOTAL	**(94 622)**	**(97 199)**	**(97 413)**	**(99 648)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

8. OPERATING EXPENSES (CONTINUED)

b) General administrative expenses

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
ICT expenses*	(29 564)	(29 946)	(29 612)	(29 999)
Deposit insurance fund & bank resolution fund	(29 304)	(28 082)	(29 304)	(28 082)
Repair, maintenance and other facilities expenses	(19 077)	(19 589)	(18 730)	(19 507)
Rental expenses	(1 625)	(16 352)	(1 629)	(16 384)
Advertising, marketing and communication	(4 498)	(5 005)	(4 542)	(5 031)
Professional fees	(1 827)	(3 666)	(2 070)	(3 812)
Business trip expenses	(793)	(865)	(830)	(903)
Costs charged by other KBC Group entities	(87)	(609)	(92)	(609)
Training expenses	(504)	(609)	(508)	(611)
Other expenses	(13 365)	(14 931)	(13 524)	(15 089)
TOTAL	**(100 644)**	**(119 654)**	**(100 841)**	**(120 027)**

*ICT expenses includes hardware expenses, software expenses, consultancy and outsourcing expenses for IT services and telecommunications expenses.

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Audit expenses	(523)	(617)	(614)	(706)
TOTAL	**(523)**	**(617)**	**(614)**	**(706)**

c) Depreciation and amortisation expenses

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Depreciation of fixed assets	(12 285)	(10 280)	(12 325)	(10 408)
Depreciation of right-of-use assets	(10 267)	-	(10 283)	-
Amortisation of intangible assets	(1 952)	(3 432)	(1 980)	(3 390)
TOTAL	**(24 504)**	**(13 712)**	**(24 588)**	**(13 798)**

9. IMPAIRMENTS/REVERSAL OF IMPAIRMENT

The net charge for the impairments for year ended 31 December 2019 and 31 December 2018 as follows:

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Impairment on financial assets at AC and at FVOCI	**(7 131)**	**21 057**	**(8 627)**	**20 250**
Loans and advances to customers	(4 369)	28 141	(5 862)	27 380
Collection expenses	(2 964)	(6 479)	(2 964)	(6 478)
Due from banks	(7)	4	(7)	4
Financial assets at FVOCI	138	(193)	138	(193)
Financial Assets at AC	38	9	38	9
Other receivables	33	(425)	30	(472)
Other impairments	**(2 111)**	**(16 386)**	**(2 111)**	**(16 386)**
Investment Property	(452)	(11 408)	(452)	(11 408)
Impairment of foreclosed assets	(2 771)	(4 422)	(2 771)	(4 422)
Reversal of impairments/(impairments) on off-balance sheet commitment	1 112	(556)	1 112	(556)
TOTAL	**(9 242)**	**4 671**	**(10 738)**	**3 864**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

10. INCOME TAX EXPENSE

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Current tax expense	(16 257)	(4 288)	(16 257)	(4 288)
Deferred tax expense/ (income) related to origination and reversal of temporary differences	(455)	120	(455)	120
Tax loss generated by capital elements in the current year	-	(1 765)	-	(1 765)
Tax loss generated from change in accounting policy from implementation of the new IFRS 9	-	(13 857)	-	(13 857)
Tax expense	**(16 712)**	**(19 790)**	**(16 712)**	**(19 790)**
Tax effects from previous periods	-	238	-	238
Share of tax in subsidiaries and equity method investments	-	-	(297)	64
TOTAL	**(16 712)**	**(19 552)**	**(17 009)**	**(19 488)**

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

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Profit before taxation	171 547	195 441	167 919	191 738
Prima facie tax calculated at an applicable tax rate (10% for 2019 and 2018)	(17 155)	(19 544)	(16 792)	(19 174)
Tax effect of income/(expenses) that are not deductible in determining the taxable profit	443	(246)	443	(246)
Tax expense	**(16 712)**	**(19 790)**	**(16 349)**	**(19 420)**
Tax effects from previous periods	-	238	-	238
Share of tax in associates subsidiaries and equity method investments	-	-	(660)	(306)
TOTAL	**(16 712)**	**(19 552)**	**(17 009)**	**(19 488)**
Effective income tax rate	9.74%	10.00%	10.13%	10.16%

Current income tax expense represents the amount of tax to be paid under Bulgarian law at statutory tax rates. Deferred tax income or expense result from the change of carrying amounts of deferred tax assets and deferred tax liabilities. Deferred tax assets and liabilities as of 31 December 2019 and as of 31 December 2018 are calculated using the tax rate of 10% enacted as of that date to be effective for 2019 and 2018.

11. CASH AND CASH BALANCES WITH THE CENTRAL BANK

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Cash in hand	214 388	182 329	214 388	182 330
Minimum reserve with the Central Bank	434 537	958 357	434 537	958 357
Current account with the Central Bank	-	621 713	-	621 713
TOTAL	**648 925**	**1 762 399**	**648 925**	**1 762 400**

Mandatory reserve is a part of required reserves in Central Bank which also includes current account with BNB and 50% from cash in hand. Required reserves use is restricted. Such reserves are regulated on a monthly basis and their insufficiency carries penalty interest. Daily fluctuations within a month period are allowed.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

12. DUE FROM BANKS AND RESERVE REPOS WITH BANKS

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Nostro accounts	353 092	578 682	353 092	578 682
Interbank placements	8 192	6 559	8 192	6 559
Other loans and advances to banks	117 997	2 387	117 997	2 387
Reverse Repos with banks	2 287 637	1 345 350	2 287 637	1 345 350
TOTAL	**2 766 918**	**1 932 978**	**2 766 918**	**1 932 978**
Included in cash equivalents (note 33)	2 229 833	2 035 943	2 229 833	2 035 944

13. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer (by gross carrying amount)

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Individuals (retail)				
Overdrafts	12 140	13 827	12 140	13 827
Credit cards	98 139	105 907	98 139	105 907
Mortgages	1 405 590	1 262 986	1 405 590	1 262 986
Consumer loans	1 068 344	1 069 283	1 068 344	1 069 283
	2 584 213	**2 452 003**	**2 584 213**	**2 452 003**
Corporate entities				
Financial institutions	98 676	118 610	98 676	99 207
Large corporate customers	1 175 282	870 196	1 175 282	889 818
SME corporate	2 126 693	2 092 716	2 131 350	2 095 133
Government and agencies	97 186	64 991	97 185	64 991
	3 497 837	**3 146 513**	**3 502 493**	**3 149 149**
Loans and advances to customers, gross	**6 082 050**	**5 598 516**	**6 086 706**	**5 601 152**
Less: allowance for impairment	**(348 960)**	**(420 461)**	**(351 626)**	**(421 634)**
Loans and advances to customers, net of provision	**5 733 090**	**5 178 055**	**5 735 080**	**5 179 518**

(b) Analysis by IFRS 9 stage, net of impairments

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Individuals (retail)	**2 480 370**	**2 336 833**	**2 480 370**	**2 336 833**
Impaired				
Stage 1	2 146 780	1 981 895	2 146 780	1 981 893
Stage 2	225 621	245 060	225 621	245 060
Stage 3	107 969	109 878	107 969	109 880
Corporate entities	**3 252 720**	**2 841 222**	**3 254 710**	**2 842 685**
Impaired				
Stage 1	2 736 581	2 212 698	2 706 848	2 193 516
Stage 2	231 807	256 334	261 262	276 960
Stage 3	284 332	372 190	286 600	372 209
Loans and advances to customers, net	**5 733 090**	**5 178 055**	**5 735 080**	**5 179 518**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Credit loss allowance	Stage 1			Stage 2			Stage 3			
SEPARATE	(12-months ECL)			(lifetime ECL for SICR)			(lifetime ECL for credit impaired)			**Total**
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2019	(289)	(4 398)	(17 928)	(1 789)	(6 952)	(11 896)	(57 453)	(44 289)	(275 467)	**(420 461)**
Increases due to origination	(130)	(954)	(7 557)	(366)	(733)	(2 066)	-	-	-	**(11 806)**
Decrease due to derecognition /full repayment/	61	984	3 056	68	644	4 398	723	915	3 373	**14 222**
Decrease in allowance account due to write-offs	-	-	-	-	-	-	7 208	16 244	65 356	**88 808**
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	9 219	**9 219**
Changes due to change in credit risk (net)	66	1 240	3 704	636	624	1 364	(461)	(15 424)	(20 691)	**(28 942)**
At 31 December 2019	**(292)**	**(3 128)**	**(18 725)**	**(1 451)**	**(6 417)**	**(8 200)**	**(49 983)**	**(42 554)**	**(218 210)**	**(348 960)**

Credit loss allowance	Stage 1			Stage 2			Stage 3			
SEPARATE	(12-months ECL)			(lifetime ECL for SICR)			(lifetime ECL for credit impaired)			**Total**
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 20187	(121)	(2 895)	(10 454)	(1 776)	(3 397)	(26 448)	(65 227)	(52 893)	(511 999)	**(675 210)**
Impact of Business combination	(161)	(1 563)	(4 671)	(284)	(3 185)	(636)	(10 558)	(8 088)	(92 523)	**(121 669)**
Increases due to origination	(112)	(2 472)	(6 240)	(97)	(1 355)	(3 816)	-	-	-	**(14 092)**
Decrease due to derecognition /full repayment/	24	1 006	3 104	127	896	4 992	1 119	8 867	3 271	**23 406**
Decrease in allowance account due to write-offs	-	-	-	-	-	-	18 202	25 756	345 489	**389 447**
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	11 749	**11 749**
Changes due to change in credit risk (net)	81	1 526	333	241	89	14 012	(989)	(17 931)	(31 454)	**(34 092)**
At 31 December 2018	**(289)**	**(4 398)**	**(17 928)**	**(1 789)**	**(6 952)**	**(11 896)**	**(57 453)**	**(44 289)**	**(275 467)**	**(420 461)**

Credit loss allowance	Stage 1			Stage 2			Stage 3			
CONSOLIDATED	(12-months ECL)			(lifetime ECL for SICR)			(lifetime ECL for credit impaired)			**Total**
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2019	(289)	(4 398)	(17 928)	(1 789)	(6 952)	(12 386)	(57 453)	(44 289)	(276 150)	(421 634)
Increases due to origination	(130)	(954)	(7 557)	(366)	(733)	(2 066)	-	-	-	(11 806)
Decrease due to derecognition /full repayment/	61	984	3 056	68	644	4 398	723	915	3 373	14 222
Decrease in allowance account due to write-offs	-	-	-	-	-	-	7 208	16 244	65 356	88 808
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	9 219	9 219
Changes due to change in credit risk (net)	66	1 240	3 704	636	624	1 158	(461)	(15 424)	(21 978)	(30 435)
At 31 December 2019	**(292)**	**(3 128)**	**(18 725)**	**(1 451)**	**(6 417)**	**(8 896)**	**(49 983)**	**(42 554)**	**(220 180)**	**(351 626)**

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

- During the year the gross amount of written-off loans is BGN 88 828 thousand.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Sensitivity of ECL under IFRS 9 to forward looking macroeconomic assumptions

A change in the weight assigned to base forward looking macro-economic set of assumptions by 50% towards the immediate downside level assumptions would result in an increase in ECL by BGN 458 thousand at 31 December 2019. A corresponding change towards the upside assumptions would result in a decrease in ECL by BGN 350 thousand at 31 December 2019.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31.12.2019 SEPARATE	Year ended 31.12.2018 SEPARATE	Year ended 31.12.2019 CONSOLIDATED	Year ended 31.12.2018 CONSOLIDATED
Bulgarian government securities	30 388	26 259	30 388	26 259
listed on official stock markets	30 388	26 259	30 388	26 259
Debt securities of corporate entities	-	5	-	5
Mutual Funds	4 015	6 421	4 015	6 421
TOTAL	**34 403**	**32 685**	**34 403**	**32 685**

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

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 31.12.2019

SEPARATE

Currency	**Fixed interest**	**Non-Interest bearing**	**Total**
BGN	23 193	4 015	**27 208**
EUR	7 195	-	**7 195**
TOTAL	**30 388**	**4 015**	**34 403**

As pf 31.12.2018

SEPARATE

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

As pf 31.12.2019

CONSOLIDATED

Currency	**Fixed interest**	**Non-Interest bearing**	**Total**
BGN	23 193	4 015	**27 208**
EUR	7 195	-	**7 195**
TOTAL	**30 388**	**4 015**	**34 403**

As pf 31.12.2018

CONSOLIDATED

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Rating "Moodys"

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
MBAA2	30 388	26 259	30 388	26 259
Unrated (Not rated)	4 015	6 426	4 015	6 426
TOTAL	**34 403**	**32 685**	**34 403**	**32 685**

15. FINANCIAL ASSETS AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME

Financial assets at fair value through OCI	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Bulgarian government securities				
Listed on official stock markets	872 263	911 264	872 263	911 264
Unlisted	-	927	-	927
	872 263	**912 191**	**872 263**	**912 191**
Foreign government securities				
Listed on official stock markets	44 025	65 778	44 025	65 778
Unlisted	23 608	23 798	23 608	23 799
	67 633	**89 576**	**67 633**	**89 577**
Corporate bonds				
Unlisted	-	10	-	10
	-	**10**	**-**	**10**
Equity securities FVOCI				
Equity securities in local entities				
Listed on official stock markets	339	380	339	380
Unlisted	9 984	9 780	9 984	9 780
	10 323	**10 160**	**10 323**	**10 160**
Equity securities in foreign entities				
Listed on official stock markets	-	-	-	-
Unlisted	12 155	8 700	12 156	8 700
Equity securities in foreign entities	**12 155**	**8 700**	**12 156**	**8 700**
TOTAL	**962 374**	**1 020 637**	**962 375**	**1 020 638**

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

As of 31.12.2019
SEPARATE

Currency	**Fixed interest**	**Non-Interest bearing**	**Total**
BGN	264 393	10 323	**274 716**
USD	18 646	10 617	**29 263**
EUR	656 857	1 538	**658 395**
TOTAL	**939 896**	**22 478**	**962 374**

As of 31.12.2018
SEPARATE

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. FINANCIAL ASSETS AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME (CONTINUED)

As of 31.12.2019

CONSOLIDATED			
Currency	**Fixed interest**	**Non-Interest bearing**	**Total**
BGN	264 393	10 324	**274 717**
USD	18 646	10 617	**29 263**
EUR	656 857	1 538	**658 395**
TOTAL	**939 896**	**22 479**	**962 375**

As of 31.12.2018

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

16. INVESTMENTS AT AMORTISED COST

	As of 31.12.2019	As of 31.12.2018	As of 31.12.2019	As of 31.12.2018
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Bulgarian government securities	**1 220 555**	**855 943**	**1 220 555**	**855 943**
listed on official stock markets	1 027 213	855 943	1 027 213	855 943
unlisted	193 342	-	193 342	-
Foreign government securities	**469 357**	**168 235**	**469 357**	**168 235**
listed on official stock markets	324 584	168 235	324 584	168 235
unlisted	144 773	-	144 773	-
Debt securities of corporate entities	**2 720**	**3 100**	**2 720**	**3 100**
TOTAL	**1 692 632**	**1 027 278**	**1 692 632**	**1 027 278**

Total investments at amortised cost by type of currency and interest rate are as follows:

As of 31.12.2019

SEPARATE			
Currency	**Fixed interest**	**Non-Interest bearing**	**Total**
BGN	307 710	-	**307 710**
USD	87 289	-	**87 289**
EUR	1 294 913	2 720	**1 297 633**
TOTAL	**1 689 912**	**2 720**	**1 692 632**

As of 31.12.2018

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

16. INVESTMENTS AT AMORTISED COST (CONTINUED)

As of 31.12.2019

CONSOLIDATED			
Currency	**Fixed interest**	**Non-Interest bearing**	**Total**
BGN	307 710	-	**307 710**
USD	87 289	-	**87 289**
EUR	1 294 913	2 720	**1 297 633**
TOTAL	**1 689 912**	**2 720**	**1 692 632**

As of 31.12.2018

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

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

	SEPARATE AND CONSOLIDATED			SEPARATE AND CONSOLIDATED		
	31.12.2019			31.12.2018		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for trading	**2 011 736**	**1 191**	**4 599**	**2 155 439**	**9 379**	**1 713**
Of which currency forwards	798 030	355	329	33 061	111	55
Of which currency swaps	1 213 706	836	4 270	2 122 378	9 268	1 658
Hedging derivatives	**117 350**	-	**6 043**	**117 350**	-	**3 724**
Of which interest rate swaps	117 350	-	6 043	117 350	-	3 724
Total derivative financial instruments	**2 129 086**	**1 191**	**10 642**	**2 272 789**	**9 379**	**5 437**

	SEPARATE AND CONSOLIDATED	
	31.12.2019	31.12.2018
Net result from FV hedges		
Change in the fair value of hedging instruments (interest rate swaps) due to the hedged risk	(2 384)	(1 128)
Adjustments for credit risk of hedging derivatives - CVA net of DVA	65	85
Net change in fair value of hedging instruments	(2 319)	(1 043)
Net change in fair value of hedged asset's value due to hedged risk	2 384	1 128
Net result from FV hedges recognised in the income statement	**65**	**85**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in associated companies as of 31 December 2019, respectively 31 December 2018 are accounted for using the equity method.

As of 31.12.2019
SEPARATE

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost
UBB Factoring EOOD	Bulgaria	100%	30 000	BGN	3 000
UBB Asset Management AD	Bulgaria	91%	636	BGN	636
UBB Insurance Broker AD	Bulgaria	100%	500 000	BGN	2 610
East Golf Properties EAD	Bulgaria	100%	10 646 365	BGN	12 145
UBB Centre Management EOOD	Bulgaria	100%	2	BGN	2
Drujestvo za Kasovi Uslugi AD	Bulgaria	25%	3 125	BGN	2 975
Total investments in subsidiaries and associated companies					**21 368**

As of 31.12.2018
SEPARATE

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

All investments in subsidiaries and associated companies are registered in Bulgaria.

As of 31.12.2019
CONSOLIDATED

Company name	Type of investment	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
Drujestvo za Kasovi Uslugi AD	Associate	25	3 125	BGN	2 976	3 560
Total investments in associates					**2 976**	**3 560**

As of 31.12.2018
CONSOLIDATED

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

Summarised financial information for the associates of UBB:

Movement in investment in associates

	As of 31.12
BALANCE AS OF JANUARY 1, 2018	29 707
Income from equity method investments	562
Sold investments	(27 493)
BALANCE AS OF DECEMBER 31, 2018	2 776
Additions	475
Income from equity method investments	309
BALANCE AS OF DECEMBER 31, 2019	**3 560**

	As of 31.12.2019	As of 31.12.2018
	Druzhestvo za Kasovi Uslugi	Druzhestvo za Kasovi Uslugi
Carrying amount	3 560	2 776
Revenue	7 783	6 973
Depreciation and amortization	1 221	1 057
Interest income	-	4
Gross profit from continuing operation	1 479	953
Net profit for the year	1 331	858
Other comprehensive income	(24)	(23)
Total comprehensive income	(24)	(23)
Group's share of profits of associates	333	172
Dividends distributed	160	128
%Holding	25%	20%
Balance sheet:	16 188	14 462
Current assets	9 694	7 843
incl. cash and cash equivalents	8 468	6 654
Non-current assets	6 494	6 619
Current liabilities	785	445
Current liabilities (excl. trade and other payables and provisions)	127	125
Non-current liabilities	313	234
Non-current liabilities (excl. trade and other payables and provisions)	37	70

19. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Intangible assets, property and equipment as of 31 December 2019 are as follows:

SEPARATE					
COST	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets*	**Total**
As of 1 January 2019	124 270	141 518	**265 788**	50 546	**316 334**
Additions	4 092	39 290	**43 382**	9 071	**52 453**
Disposals	(555)	(18 221)	**(18 776)**	(753)	**(19 529)**
Transfers	194	(22 487)	**(22 293)**	(3 961)	**(26 254)**
As of 1 December 2019	128 001	140 100	**268 101**	54 903	**323 004**
DEPRECIATION/ AMORTIZATION					
As of 1 January 2019	(52 630)	(112 940)	**(165 570)**	(45 453)	**(211 023)**
Charge for 2019	(2 777)	(9 508)	**(12 285)**	(1 952)	**(14 237)**
Depreciation/Amortization charged on disposals	473	17 931	**18 404**	657	**19 061**
As of 31 December 2019	(54 934)	(104 517)	**(159 451)**	(46 748)	**(206 199)**
NET BOOK VALUE	**73 067**	**35 583**	**108 650**	**8 155**	**116 805**

*Intangible assets include software products and other rights – patents, licenses etc.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

19. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT (CONTINUED)

CONSOLIDATED	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets*	**Total**
COST					
As of 1 January 2019	124 270	141 850	**266 120**	50 995	**317 115**
Additions	4 092	39 297	**43 389**	9 092	**52 481**
Disposals	(555)	(18 221)	**(18 776)**	(753)	**(19 529)**
Transfers	194	(22 487)	**(22 293)**	(3 961)	**(26 254)**
As of 31 December 2019	128 001	140 439	**268 440**	55 373	**323 813**
DEPRECIATION/ AMORTIZATION	(52 630)	(113 155)	**(165 785)**	(45 805)	**(211 590)**
As of 1 January 2019	(2 777)	(9 548)	**(12 325)**	(1 980)	**(14 305)**
Charge for 2019	473	17 932	**18 405**	657	**19 062**
Depreciation/Amortization charged on disposals	(54 934)	(104 771)	**(159 705)**	(47 128)	**(206 833)**
As of 31 December 2019	**73 067**	**35 668**	**108 735**	**8 245**	**116 980**

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

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

CONSOLIDATED	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets*	**Total**
COST					
As of 1 January 2018	54 338	129 935	**184 273**	39 867	**224 140**
Impact of business combination	15 421	27 208	**42 629**	7 666	**50 295**
Additions	54 393	113 335	**167 728**	3 085	**170 813**
Disposals	(56)	(14 133)	**(14 189)**	(85)	**(14 274)**
Transfers	174	(114 495)	**(114 321)**	462	**(113 859)**
As of 31 December 2018	124 270	141 850	**266 120**	50 995	**317 115**
DEPRECIATION/ AMORTIZATION					
As of 1 January 2018	(43 401)	(96 799)	**(140 200)**	(34 378)	**(174 578)**
Impact of business combination	(7 408)	(22 003)	**(29 411)**	(8 037)	**(37 448)**
Charge for 2018	(1 844)	(8 439)	**(10 283)**	(3 390)	**(13 673)**
Depreciation/Amortization charged on disposals	23	14 086	**14 109**	-	**14 109**
As of 31 December 2018	(52 630)	(113 155)	**(165 785)**	(45 805)	**(211 590)**
NET BOOK VALUE	**71 640**	**28 695**	**100 335**	**5 190**	**105 525**

20. INVESTMENT PROPERTIES

	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of 1 January 2019	173 501	185 112
Additions	24 509	24 509
Transfers	100	100
Disposals	(54 260)	(54 316)
As of 31 December 2019	143 850	155 405
DEPRECIATION		
As of 1 January 2019	(45 360)	(46 125)
Charge for 2019	(2 777)	(3 158)
Depreciation/Amortization charged on disposals	31 083	31 083
Impairment for the period	(452)	(452)
As of 31 December 2019	(17 506)	(18 652)
NET BOOK VALUE	**126 344**	**136 753**

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

The fair value of the investment property held by UBB as at 31 December 2019 and as at 31 December 2018 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 1 857 thousand.
Contractual obligations to purchase construct or develop investment property for repairs maintenance amount to BGN 155 thousand.
Fair value of the investment property has been categorized as fair value based on the input data used in the valuation techniques.

Type of property	2019 in thousands	2018 in thousands
Residential	3 395 €	4 585 €
Vacation	13 173 €	13 255 €
Industrial	12 746 €	6 245 €
Plots (land)	15 412 €	19 594 €
Commercial	20 807 €	21 839 €
Fair value of investment property	**65 533**	**65 518**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

20. INVESTMENT PROPERTIES (CONTINUED)

Type of investment property	Valuation technique	Significant unobservable Inputs	Range (weighted average) 2018	2019
Residential	RVM	Standard construction prices per sq.m.	€ 320 - € 340	n/a
		Annual growth of standard and construction prices	1.00%	-
	MVM	Offer (deal) price per sq.m.	€ 200 - € 650	210€ - 670€
		Annual growth of market comparatives (real deals)	1.10%	1.05%
Vacation properties	RVM	Standard construction prices per sq.m.	€ 100 - € 300	n/a
		Annual growth of standard and construction prices	0%	-
	MVM	Offer (deal) price per sq.m.	€ 300 - € 1200	300€ - 920€
		Annual growth of market comparatives (real deals)	0%	-
Industrial properties	RVM	Standard construction prices per sq.m.	€ 120 - € 280	€ 100 - € 406
		Annual growth of standard and construction prices	0%	-
	MVM	Offer (deal) price per sq.m.	€ 40 - € 250	€ 40 - € 308
		Annual growth of market comparatives (real deals)	0%	-
	MCFCF	Estimated monthly rent per	€ 1 - € 4.5	€ 0.5 - € 3
		Annual growth of rent rates	0%	-
		Long-term vacancy	5%	5%
		Rate of return	9%	9%
Plots (land)	MVM	Offer (deal) price per sq.m.	€ 10 - € 180	€ 5.3 - € 260
		Annual growth of market comparatives (real deals)	0%	-
Commercial properties	MVM	Offer (deal) price per sq.m.	€ 300 - € 500	€ 230 - € 780
		Annual growth of market comparatives (real deals)	0%	-
	MCFCF	Estimated monthly rent per sq.m.	€ 2.6 - € 5	€ 1.9 - € 7
		Annual growth of rent rates	0%	-
		Long-term vacancy	3% - 5%	3% - 5%
		Rate of return	7% - 8%	7% - 10%

21. RIGHT-OF-USE ASSETS, LEASE LIABILITIES (IFRS 16)

Comparative figures between IAS 17 and IFRS 16 is presented below:

	As of 31.12.2019	As of 1.1.2019	As of 31.12.2019	As of 1.1.2019
Right-of-use assets	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Buildings	27 648	39 019	27 715	39 085
Vehicles	345	292	369	292
	27 993	**39 311**	**28 084**	**39 377**

	As of 31.12.2019	As of 1.1.2019	As of 31.12.2019	As of 1.1.2019
Lease liabilities	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Current	9 410	-	9 430	-
Non-current	18 600	39 293	18 658	39 359
	28 010	**39 293**	**28 088**	**39 359**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

21. RIGHT-OF-USE ASSETS, LEASE LIABILITIES (IFRS 16) (CONTINUED)

	As of 31.12.2019 SEPARATE	As of 31.12.2019 CONSOLIDATED
Lease liabilities		
Balance at 1 January 2019	39 293	39 359
Cash flows on principal repayment	(10 965)	(10 977)
Adjustment for new/terminated contracts	(318)	(294)
Balance at 31 December 2019	**28 010**	**28 088**

	SEPARATE			CONSOLIDATED		
Right-of use asset	Buildings	Vehicles	**Total**	Buildings	Vehicles	**Total**
Cost						
As at 1 January 2019	39 019	292	**39 311**	39 085	292	**39 377**
Additions – new lease contracts	3 135	197	**3 332**	3 149	224	**3 373**
Termination of lease contracts	(4 867)	-	**(4 867)**	(4 867)	-	**(4 867)**
As at 31 December 2019	37 287	489	**37 776**	37 367	516	**37 883**
Accumulated depreciation:						
As at 1 January 2019	-	-	-	-	-	-
As at 31 December 2019	(9 639)	(144)	**(9 783)**	(9 652)	(147)	**(9 799)**
Net book value as at 1 January 2019	39 019	292	**39 311**	39 085	292	**39 377**
Net book value as at 31 December 2019	**27 648**	**345**	**27 993**	**27 715**	**369**	**28 084**

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
	IFRS16	**IAS17**	**IFRS16**	**IAS17**
Depreciation charge for the right-of-use assets by class of assets	-	-	-	-
Buildings	(10 122)	-	(10 138)	-
Vehicles	(144)	-	(144)	-
Total depreciation charge	**(10 266)**	-	**(10 282)**	-
Interest expense on lease liabilities (included in finance cost)	(224)	-	(224)	-
Loss on termination of lease contract	(33)	-	(33)	-
Operating lease expense (IAS17) (included in administrative and distribution expenses)	(1 625)	(16 352)	(1 629)	(16 384)
Total expenses related to leases	**(12 148)**	**(16 352)**	**(12 168)**	**(16 384)**

22. DEFERRED TAX

The amounts of deferred tax assets and liabilities in the consolidated statement of financial position in respect of each type of temporary differences are as follows:

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Deferred tax assets:				
Retirement benefit obligations	466	470	466	470
Fixed assets and investment properties	2 853	3 791	2 853	3 791
Provisions for legal cases	352	442	352	442
Other employee benefits	1 202	1 165	1 202	1 165
Restructuring provision	-	120	-	120
Other temporary differences	701	41	820	42
Total Deferred tax assets	**5 574**	**6 029**	**5 693**	**6 030**
Deferred tax liabilities:				
Securities – available for sale	(454)	(454)	(454)	(454)
IFRS 16	(2)	-	(2)	-
Other temporary differences	-	-	(15)	(4)
Total Deferred tax liabilities	**(456)**	**(454)**	**(471)**	**(458)**
Recognised as a net amount in the balance sheet as follows:				
Deferred tax assets:	**5 119**	**5 575**	**5 238**	**5 572**
Deferred tax liabilities:	**-**	-	**15**	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

23. OTHER ASSETS

Financial other assets	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Receivables from clients	1 973	1 822	1 973	2 791
Suspense accounts with cards (receivable from financial institutions)	5 664	5 217	5 664	5 217
Suspense accounts with merchants	2 644	1 708	2 644	1 708
Total financial other assets	**10 281**	**8 747**	**10 281**	**9 716**

Non-financial other assets	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Assets acquired through foreclosure proceedings	21 035	17 479	21 035	17 479
Income tax advances and income taxes withheld	-	411	-	411
Prepaid expenses	2 707	2 782	2 737	2 802
Other	1 515		2 877	61
Total non-financial other assets	**25 257**	**20 672**	**26 649**	**20 753**
Total other assets	**35 538**	**29 419**	**36 930**	**30 469**

Assets acquired through foreclosure proceedings	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Buildings	15 159	6 921	15 159	6 921
Land	5 876	5 911	5 876	5 911
Machinery and equipment	-	4 647	-	4 647
Total financial other assets	**21 035**	**17 479**	**21 035**	**17 479**

The disclosed amount of assets acquired through foreclosure proceedings is net of impairments. The related amounts for impairments as of 2019 are BGN 2 771 thousand (2018: BGN 4 422 thousand).

24. DEPOSITS FROM BANKS

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Sight deposits	2 037	2 824	2 037	2 824
Time deposits	7 583	1 175 060	7 583	1 175 060
Other due to banks	24	606	24	606
TOTAL	**9 644**	**1 178 490**	**9 644**	**1 178 490**

25. DEPOSITS FROM CUSTOMERS

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Individuals	5 625 340	5 250 027	5 625 340	5 250 027
Non-bank financial institutions	577 680	587 706	574 613	587 706
Corporate entities	2 426 405	2 210 786	2 423 136	2 201 616
Government entities	119 571	123 966	119 571	123 966
TOTAL	**8 748 996**	**8 172 485**	**8 742 660**	**8 163 315**

26. PAYABLES UNDER REPO AGREEMENTS

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Repurchase agreements with foreign banks	1 797 115	331 619	1 797 115	331 619
Total payables on repo agreements	**1 797 115**	**331 619**	**1 797 115**	**331 619**

27. OTHER BORROWED FUNDS

The Bank 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. The obligation is secured with a pledge of government securities. In 2019 UBB disbursed 2 450 000 EUR in two tranches – 1 million EUR in February and 1 450 000 EUR in September (2018: EUR 2 million utilized). Thus the whole amount of the disbursed facility was 4 450 000 EUR. The left 550 000 EUR of the contract were cancelled for further disbursement. In December 2019 the first instalment payment was done in amount of 635 714 EUR. The outstanding amount of the facility as of 31 December 2019 is 3 814 286 EUR (2018: 2 000 000 EUR). There were also two interest payments in June (12 333.33 EUR) and in December (18 512.5 EUR). Thus the full amount of interest payments as of December 2019 is BGN 104 thousand.

On 14 October 2011, UBB (as universal legal successor of all rights and obligations of CIBANK) concluded a contract with European Investment Bank for a credit line amounting to EUR 30,000 thousand. The funds are designated for small, medium-sized and Mid-Cap enterprises. The entire line is drawn in four separate tranches. First tranche of EUR 5,000 thousand at a fixed rate 3.555% (maturity 10/02/2020), second tranche of 5,000 thousand at a fixed rate 3.508% (maturity 14/02/2020), third tranche of 10,000 thousand. at a fixed rate 2.584% (maturity 01/10/2020) and fourth and last tranche of EUR 10,000 thousand with floating rate 6M EURIBOR + 0.871%, prepaid on 26/03/2015.
The main purpose of the loans are investment and working capital needs. As of 31.12.2019 under this facility three unpaid traches - the First, the second and the third tranche. About the First Tranche - in 2019 two interest payments were made in amount of 117 500 EUR (the whole amount of interest payments made up to 31.12.2019 is 1 333 125 EUR). About the Second Tranche – in 2019 two interest payments were made in amount of 175 400 EUR (the whole amount of interest payments up to 31.12.2019 is 236 100 EUR). About the Third Tranche – in 2019 two interest payments were made in amount of 258 400 EUR (the whole amount of interest payments up to 31.12.2019 is 387 600 EUR). There were no instalment payments under this facility in 2019.
On 13 March 2014, UBB (as universal legal successor of all rights and obligations of CIBANK) concluded a fourth contract with European Investment Bank for a credit line amounting to EUR 50,000 thousand. The funds are designated for small, medium-sized and Mid- Cap enterprises and were utilized in tranches, as follows: first tranche amounting to EUR 10,000thousand at a fixed interest rate of 2.384% (maturity date: 28 April 2026), second tranche amounting to EUR 15,000 thousand at a floating interest rate equal to 6 EURIBOR + 0.791% (maturity date: 2026) and third tranche amounting to EUR 10,000 thousand at a floating interest rate equal to 6M EURIBOR + 0.223 % (maturity date: 19 December 2024). The remaining balance of EUR 15,000 thousand was cancelled. The second tranche was early repaid on 28 October 2014. Presently active are the first (fixed) and fourth (floating) tranche. About the First Tranche – on 29.04.2019 and 28.10.2019 the second and the third instalment payments were paid in amount of 625 000 EUR each (1 250 000 EUR is the whole sum), also two interest payments were made - 111 750 EUR in April and 104 300 in October. As of 31.12.2019 the outstanding amount of the tranche is 8 125 000 EUR. About the Fourth Tranche – the first instalment payment was made in June in amount of 758 990.24 EUR and no interest was calculated with it. The outstanding amount of the tranche as of 31.12.2019 is BGN 16 329 thousand.
At 08.01.2016 UBB (as universal legal successor of all rights and obligations of CIBANK) has concluded fifth contract with the European Investment Bank for a credit line of EUR 50,000 thousand.
The resource is designed for small, medium and Mid-Cap enterprises and was utilized in tranches as follows - first tranche under the "Youth Employment", amounting to EUR 16 000 thousand at a fixed interest rate 0%, with the option to renegotiate the interest rate after the sixth year (maturity 30.06.2026). The remaining EUR 34 000 thousand will not be utilized. The utilization period has expired on 08.01.2018. The undrawn amount under the latest agreement is EUR 34 000 thousand, which will not be utilized
At 31 December 2019 the total amount of the liability under the five contracts of UBB with EIB was EUR 52 473 892.59.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

27. OTHER BORROWED FUNDS (CONTINUED)

On 02 July 2015, UBB (as universal legal successor of all rights and obligations of CIBANK) concluded a contract with the Council of Europe Development Bank amounting to EUR 35 000 thousand. The funds are designated for small and medium-sized enterprises.

Out of it, on 15 September 2015 the amount of EUR 17 500 thousand was utilized, as follows: EUR 8 750 thousand at a floating interest rate of 6M. EURIBOR + 0.06 %, but not less than 0% and EUR 8 750 thousand at a fixed interest rate – 0.48% (maturity date of both tranches: 15 September 2022). The second tranche of BGN 17 500 thousand was cancelled in July 2017.

From the utilized amount of the tranche of EUR 17 500 thousand until 31 December 2019, interest payments (total fixed and floating) amounting to EUR 151 291 were made (for 2019 interest was paid in the amount of EUR 28 thousand, in 2018 - EUR 31 thousand). On 16.09.2019, the third installment of the principal of the utilised tranche was paid in the amount of EUR 2 916 thousand (BGN 5 704 thousand), and thus the balance of the outstanding amount of the facility for that period amounted to EUR 8 750 thousand.

		As of 31.12.2019	As of 31.12.2018	As of 31.12.2019	As of 31.12.2018
	Currency	**SEPARATE**	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Credit lines from banks	EUR	126 100	133 641	126 100	133 641
TOTAL		**126 100**	**133 641**	**126 100**	**133 641**

Below is presented a table showing all borrowed funds with their contractual terms and corresponding carrying amounts as of 31 December 2019 and 31 December 2018.:

Counterparty	**Description**	**Currency**	**Contract**	**Date of agreement**	**Value Date**	**Date of maturity**	**Interest rate**	**Used to 31.12.2019**	**Used to 31.12.2018**
EBRD	Energy Efficiency Program	Euro	5 million euro	16.06.2016	16.06.2016	03.12.2022	Floaing	7 460	3 912
EIB	Program for small, medium and medium-sized enterprises	Euro	5 million euro	14.10.2011	10.02.2012	10.02.2020	3,555%	9 779	9 779
			5 million euro		14.02.2012	14.02.2020	3,508%	9 779	9 779
			10 million euro		01.10.2012	01.10.2020	2,584%	19 558	19 558
	Program for small, medium and medium-sized enterprises	Euro	50 million euro	13.03.2014	28.04.2014	28.04.2026	2,384%	14 981	18 337
					09.12.2014	09.12.2024	6M EURIBOR + 0.223%	15 891	17 813
	Program for small, medium and medium-sized enterprises	Euro	50 million euro	08.01.2016	30.06.2016	30.06.2026	0%	31 293	31 293
European Development Bank	Program for small and medium enterprises	Euro	50 million euro	02.07.2015	15.09.2019	15.09.2022	6M. EURIBOR + 0.06 %	8 557	14 261
						15.09.2022	0,48%.	8 557	8 557
Agriculture State Fund	Financing from Agriculture State Fund	Leva	Negotiable	25.10.2013	25.10.2013	20.03.2020	Fixed - 2%	245	606
TOTAL								**126 100**	**133 895**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

28. PROVISIONS

a) Provisions for risks and charges

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Provisions for risks and charges				
Provisions for restructuring	-	1 200	11	1 200
Provisions for legal cases	3 522	4 386	3 522	4 431
Provisions for off- balance sheet commitment	3 206	4 318	3 206	4 318
TOTAL PROVISIONS FOR RISK AND CHARGES	**6 728**	**9 904**	**6 739**	**9 949**

b) Retirement benefit obligations

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Present value of unfunded obligations	6 130	5 980	6 130	5 980
	6 130	**5 980**	**6 130**	**5 980**

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Amount recognized in profit and loss				
Current service cost	217	495	217	495
Impact of business combination	-	1 227	-	1 227
Net interest on the net defined benefit liability	15	41	15	41
Total P&L Charge	**232**	**1 763**	**232**	**1 763**

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Reconciliation of benefit obligation				
DBO at start of period	5 980	4 444	5 980	4 444
Current service cost	217	495	217	495
Impact of business combination	-	1 227	-	1 227
Net interest on the net defined benefit liability	15	41	15	41
Benefits paid directly by the Bank	(278)	(433)	(278)	(433)
Actuarial loss	196	206	196	206
DBO at the end of period	**6 130**	**5 980**	**6 130**	**5 980**

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Cumulative amount recognized in the OCI	(1 472)	(1 276)	(1 472)	(1 276)

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Re-measurements				
Liability loss due to changes in assumptions	196	206	196	206
Total amount recognized in OCI over the period	**196**	**206**	**196**	**206**

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Net liability in statement of financial position at the beginning of the period	5 980	4 444	5 980	4 444
Benefits paid directly	(278)	(433)	(278)	(433)
Total expense recognized in the income statement	232	1 763	232	1 763
Total amount recognized in the OCI	196	206	196	206
Net liability in statement of financial position	**6 130**	**5 980**	**6 130**	**5 980**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

28. PROVISIONS (CONTINUED)

b) Retirement benefit obligations (continued)

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Assumptions				
Discount rate	0.25%	0.78%	0.25%	0.78%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

The defined benefit obligations above are linked only to obligation of UBB to provide one-off lump sum payment at retirement determined as a certain number of gross salaries based on criteria for the duration of the employment contract of respective employees as per local legislation.

Effect of the change in wage increases	+0.25% (+25 bp)	-0.25% (-0.25 bp)
Effect of the change in the provision allocated as of 31.12.2019 for the retirement benefit obligation	2.60%	-2.60%
expressed in absolute terms in	159 382	(159 382)
Effect of change in interest rate	+0.25% (+25 bp)	-0.25% (-0.25 bp)
Effect of the change in the provision allocated as of 31.12.2019 for the retirement benefit obligation	-2.70%	2.70%
expressed in absolute terms	(165 512)	165 512
Effect of change in the stages of the dropouts	1.00%	-1.00%
Effect of the change in the provision allocated as of 31.12.2019 for the retirement benefit obligation	-12.00%	12.00%
expressed in absolute terms	(735 609)	735 609
Effect of change in stages of the mortality	25.00%	-25.00%
Effect of the change in the provision allocated as of 31.12.2019 for the retirement benefit obligation	-1.75%	1.75%
expressed in absolute terms	(107 276)	107 276

29. OTHER LIABILITIES

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Financial other Liabilities				
Dividend payable	317	225	317	225
TOTAL FINANCIAL OTHER LIABILITIES	**317**	**225**	**317**	**225**

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Non-financial other Liabilities				
Payroll related accruals	17 845	14 746	18 138	14 917
Creditors and suppliers	7 753	11 793	7 850	11 916
Suspense with cards	19 721	-	19 721	-
Suspense with clients	5 912	-	5 912	-
Suspense with transfer of funds	3 503	-	3 503	-
Amounts due to government agencies	64	126	64	126
Accrued expenses and deferred income	1 932	10 353	1 932	10 353
Taxes payable - other than income taxes	480	241	480	241
Estimates related to migration and payments	-	370	-	370
Other	3 020	3 803	3 276	3 881
TOTAL NON-FINANCIAL OTHER LIABILITIES	**60 230**	**41 432**	**60 876**	**41 804**
TOTAL OTHER LIABILITIES	**60 547**	**41 657**	**61 193**	**42 029**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

30. RETAINED EARNINGS

RETAINED EARNINGS	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Retained Earnings				
Accumulated prior years' earnings at beginning of period	1 033 378	828 178	1 039 117	839 496
Impact and reclassification of IFRS 9	-	(63 908)	-	(78 760)
Impact of business combination	-	93 219	-	107 736
Net profit for the period	154 835	175 889	150 773	172 131
Dividends paid	(175 888)	-	(175 888)	-
Other comprehensive income for the year, net of tax	-	-	(23)	(1 486)
At 31 December	**1 012 325**	**1 033 378**	**1 013 979**	**1 039 117**

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Components of Retained Earnings				
Statutory reserves	672 689	672 922	673 436	675 167
Undistributed profit from previous years	184 801	184 567	189 770	191 819
Net profit for the period	154 835	175 889	150 773	172 131
TOTAL	**1 012 325**	**1 033 378**	**1 013 979**	**1 039 117**

31. REVALUATION RESERVE

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Revaluation reserves -FVOCI				
At the beginning of the period	50 816	72 945	50 816	73 836
Impact and reclassification of IFRS 9	-	(43 556)	-	(43 556)
Impact of business combination	-	40 876	-	40 876
Fair value changes	11 125	(19 449)	11 125	(19 449)
Sale of associate company	-	-	-	(891)
TOTAL	**61 941**	**50 816**	**61 941**	**50 816**

32. CONTINGENT LIABILITIES AND COMMITMENTS

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

	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Credit commitments				
Undrawn credit commitments	**1 228 061**	**867 121**	**1 228 061**	**888 290**
Of which corporate	846 468	527 359	846 468	548 528
Of which retail	264 222	274 653	264 222	274 653
Of which other financial institutions	117 371	65 109	117 371	65 109
Guarantees, documentary and commercial letters of credit	**250 423**	**269 847**	**250 423**	**269 847**
Of which corporate	238 552	259 723	238 552	259 723
Of which retail	385	315	385	315
Of which other financial institutions	3 379	1 837	3 379	1 837
Of which other credit institutions	8 107	7 972	8 107	7 972
Letter of credits	**42 313**	**17 368**	**42 313**	**17 368**
TOTAL	**1 520 797**	**1 154 336**	**1 520 797**	**1 175 505**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

ADDITIONAL INFORMATION ABOUT CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT	As of 31.12.2019	As of 31.12.2018	As of 31.12.2019	As of 31.12.2018
	SEPARATE	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Cash in hand	214 388	182 329	214 388	182 330
Placements with banks with original maturity of up to 3 months	353 092	508 264	353 092	508 264
Repo deals with banks up to 3 months	1 662 353	1 345 350	1 662 353	1 345 350
TOTAL	**2 229 833**	**2 035 943**	**2 229 833**	**2 035 944**

The minimum reserve with the Central Bank amounting to BGN 434 537 thousand (2018: BGN 958 357 thousand) are not included in cash and cash equivalents as they are not at the disposal of the Bank.

34. FINANCIAL RISK MANAGEMENT

a) Risk management principles and policies of UBB

UBB is exposed to risk arising out of its lending activity. Credit risk could arise for UBB as a result of the debtor’s failure to make the necessary payments on a transaction. The credit risk management is carried out through regular analyses of the contractors’ creditworthiness. In order to further mitigate the credit risk UBB accepts collateral and guarantees on its credit transactions.

UBB strictly complies with the requirements of the Regulations (EU) 575/2013. The Regulation (EU) 575/2013 provides the limit to large exposures whereby a large exposure is defined as the sum of all exposures of a bank to a single counterparty that are equal to or above 10% of its own funds (regulatory capital). The limit is set at 25% of own funds (regulatory capital)

UBB strictly complies with the requirements of the Credit Institution Act and BNB Ordinance 37 related to exposures to related parties. The Act provides the limits for the maximum amount of credit exposure to a related party as following:

- The total exposure of UBB to a person who/which is not a credit institution, or an investment intermediary shall not exceed 10% of UBB's own finds (regulatory capital) and
- The total amount of all exposures of UBB to related parties shall not exceed 20% of UBB’s own funds (regulatory capital).

The main credit risk to which UBB is exposed arises out of the loans granted to clients. The amount of credit exposure in this case is determined by the carrying amount of the assets. At the same time UBB is exposed to off-balance sheet credit risk as a result of commitments for granting loans and issuing Letter of Guarantees and Letter of Credits.

Credit risk

Credit risk management decisions are made in compliance with the approved risk management principles and risk appetite credit risk management framework and respective credit policies which are regularly reviewed.

Moreover, UBB possesses and applies numerous detailed procedures relevant to the lending activity regulating the acceptance and management of collaterals, credit analysis, credit administration etc.
UBB rates the corporate obligors by using an internal rating system which provides probabilities of default according to a 12-level rating scale.

For the decision making in the corporate lending activity there is an escalation of approving bodies depending on the size and the status of the loans under consideration.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

In compliance with its risk strategy, UBB targets the maintaining of low level of credit risk concentration at obligor level and by industries. UBB regularly monitors and reports the large exposures at obligor level and by industries. The largest sectors in corporate portfolio are Distribution, Building and Construction, agriculture, farming and fishing, Food Producers, Finance and Insurance.

UBB makes assessment of the risk exposure evolving from the loan portfolio by internally classifying and provisioning loans in compliance with the requirements of the IFRS on a monthly basis.

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

In order to manage the country and counterparty credit risk UBB has approved a conservative limits' framework. UBB has no appetite for risk exposures towards bank counterparties with rating less favorable than Ba3 (Moody's) or BB- (S&P/ Fitch). As a general rule UBB invests in securities with investment-grade issuer rating - "Baa3" or higher according to Moody's and "BBB-" or higher according to S&P or Fitch. The above
restrictions for selection of counterparties ensure undertaking of acceptable credit risk arising from transactions on the interbank market.

Liquidity risk

The liquidity risk is related to possible unfavorable impact to the profit and capital of UBB arising from the institution's inability to meet its obligations when they come due without incurring unacceptable losses.

UBB manages its assets and liabilities in a manner guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay both in a normal environment and under stress conditions. UBB invests mainly in liquid assets and maintains an average of 222% Liquidity Coverage Ratio (LCR). UBB maintains LCR and NSFR levels well above the regulatory required.

UBB has a solid funding structure as its loan portfolio is largely funded by customers' deposits. UBB's funding strategy is to develop a diversified funding base by depositor type and have access to a variety of alternative funding sources in order to be protected against unexpected fluctuations and minimize the cost of funding.
UBB applies regular stress-tests in order to evaluate the liquidity risk for UBB under unfavorable economic and market scenarios. The stress-tests are based on assumptions with different parameters of shock and on their impact on the inflow and outflow of funds.

Market risk

The market risk is related to possible unfavorable impact to the profit and capital of UBB from adverse movements in bond equity currency and derivative prices. It includes equity risk interest rate risk and foreign exchange risk.

UBB's total exposure to market risk is relatively small and the daily total VaR as of 31.12.2019 amounted to BGN 0.074 million. The largest market risk exposure is related to interest rate risk resulting from positions in bonds.

UBB manages the market risk by using the internationally accepted historical method. This approach is used to calculate the VaR of UBB's Trading portfolio positions retained for 1-day and for 10-days.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

This is the risk for the profit and capital of UBB arising from adverse movements in foreign currency exchange rates in the Banking and Trading books.

UBB balance sheet structure includes assets and liabilities denominated in different currencies mostly in BGN and EUR. Taking into consideration the existence of Currency Board in Bulgaria (pegged EUR/BGN rate) the currency risk undertaken by UBB mainly evolves from changes in the EUR/USD exchange rate and to a very limited extent from the exchange rates of other currencies to the Euro.
UBB manages the risk of the other than EUR open FX positions aiming to minimize the possibility of loss in case of unfavorable exchange rates' fluctuations and thus maintains the FX risk exposure under the set FX limit.

Interest rate risk in the banking book (IRRBB)

The interest rate risk in the banking book is related to possible unfavorable impact to the profit and capital of UBB from adverse movements in interest rates affecting UBB's non-trading positions.
UBB activity is subject to interest rate fluctuations as much as interest-bearing assets and liabilities mature or undergo changes in interest rate levels in different time and degree.
Interest rate risk management policy aims to optimize the net interest income and achieve market interest rate levels in compliance with UBB`s strategy.
The prevailing part of UBB`s assets are with floating interest rate while the liabilities are mainly short-term which interest rate changes according to instrument term. Thus the net balance is slightly sensitive to changes in ongoing interest rate levels. Banks aim to limit the interest rate risk in acceptable levels by maintaining adequate structure of its interest sensitive assets and liabilities and minimizing their mismatch.
The techniques for managing interest rate risk in the banking book are: change in the administered interest rates on loans and deposits change in the maturity of the offered credit and deposit products change in the amount of fees and commissions interest rate derivatives etc.
UBB measures the EVE sensitivity to unfavorable changes in interest rates separately for any of the main currencies in which UBB operates and the results are used for making management decisions. The used scenarios are +/- 10 bps and +/- 200 bps parallel shift in interest rates.

Operational risk

This is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal and compliance risk but excludes strategic and reputation risk.

In UBB the KBC Operational Risk Management Framework is implemented. The operational risk management involves application of Group Key Controls (GKCs) at process level. GKCs are implemented for all processes in KBC as every GKC includes key risks and measures for their mitigation (zero tolerances and key controls). The assessment of the GKCs at process level aims to check and document the extent of compliance with these controls as the application and assessment of the GKCs is a priority for UBB. The initial assessment of the GKCs in UBB was done in 2017 and since then it is performed on a regular basis, once per year as a minimum. The assessment of the GKCs is registered in the KBC tool B-Wise.
A building block of the framework is the registration and analysis of operational risk losses and events. In UBB the KBC Loss Data Collection Procedure is implemented regulating the process of collection and registration of operational risk losses and events. The operational risk losses and events are registered in KBC tool - Loss Event Reporter (LER). The registered losses and operational risk events with high potential impact for materialization are analysed and reported to LRMC as well as corrective measures to avoid future losses and events are proposed. Based on the developed framework and BNB's approval regarding operational risk management UBB has implemented and applies the standardized approach for determining the capital requirements for operational risk.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Business Continuity Management

Business Continuity Management (BCM) is performed in accordance with the Group standards, BCM Framework and GKC BCM.
BCM is defined as strategic and tactical ability of an entity to plan and react properly in the event of a serious disruptions, crisis or disasters. BCM focuses on availability i.e. the Recovery Time Objective (RTO) or the amount of time in which business activities need to be operational again following a serious disruption, crisis or disaster.

BCM is coordinated by local risk function as the business units are responsible for BCM framework implementation. Business Impact Analyses are prepared for all processes in UBB and for each process a recovery time objective is defined.
For each process a BC coordinator is assigned who has the task to define the critical processes, systems and people in the business unit, to preparing the Business Continuity Plan (BCP) for crisis situations as well as to coordinate the BCP testing.

Corona virus

The recent emergence of COVID-19 (more commonly known as the ‘coronavirus’) has required additional attention. At the time this report was being prepared, UBB was monitoring the situation on a daily basis. Business continuity plans and epidemic contingency plans have been activated and are in different phases depending on the UBB group entity concerned. Besides monitoring increased operational risk, we are keeping a very close eye on the related macroeconomic impact, including the impact of the KBC Group’s home markets from decreasing GDP growth in China at a time when its economy is already in a fragile state. The financial markets also appear to be highly sensitive to the risks relating to the coronavirus, with stock markets, interest rates and oil prices all falling. A broad range of companies may be directly affected due, for instance, to their reliance on imports or exports, their exposure to vulnerable sectors and – for Central European borrowers – their link with the German economy, leading to a potential worsening of their credit profile.

35. CREDIT RISK

Credit risk is summarized as follows:

Maximum exposure to credit risk before collateral and other credit enhancements

CREDIT RISK	As at 31.12.2019 Gross maximum exposure	As at 31.12.2019 Net maximum exposure	As at 31.12.2019 Gross maximum exposure	As at 31.12.2019 Net maximum exposure
	SEPARATE	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Exposure				
Balances with Central bank	648 925	648 925	648 925	648 925
Loans and advances to banks	479 281	479 281	479 281	479 281
Loans and advances to customers net	6 082 049	5 733 090	6 086 706	5 735 080
Derivative financial instruments	1 191	1 191	1 191	1 191
Financial assets at fair value through P/L	34 403	34 403	34 403	34 403
Financial assets FVOCI	962 554	962 374	962 555	962 375
Financial assets AC	1 703 706	1 692 632	1 703 706	1 692 632
Other assets	10 281	10 281	10 281	36 930
Total balance sheet items	**9 922 390**	**9 562 177**	**9 927 048**	**9 590 817**
Commitments	1 228 061	1 228 061	1 228 061	1 228 061
Total off-balance sheet positions	**1 228 061**	**1 228 061**	**1 228 061**	**1 228 061**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK (CONTINUED)

CREDIT RISK	As at 31.12.2018 Gross maximum exposure SEPARATE	As at 31.12.2018 Net maximum exposure SEPARATE	As at 31.12.2018 Gross maximum exposure CONSOLIDATED	As at 31.12.2018 Net maximum exposure CONSOLIDATED
Exposure				
Balances with Central bank	1 762 399	1 762 399	1 762 400	1 762 400
Loans and advances to banks	587 631	587 628	587 631	587 628
Loans and advances to customers net	5 598 516	5 178 055	5 601 152	5 179 518
Derivative financial instruments	9 379	9 379	9 379	9 379
Financial assets at fair value through P/L	32 685	32 685	32 685	32 685
Financial assets FVOCI	1 020 956	1 020 637	1 020 957	1 020 638
Financial assets AC	1 038 390	1 027 278	1 038 390	1 027 278
Other assets	8 747	8 747	9 716	9 716
Total balance sheet items	**10 058 703**	**9 626 808**	**10 062 310**	**9 629 242**
Commitments	1 136 968	1 136 968	1 158 137	1 158 137
Total off-balance sheet positions	**1 136 968**	**1 136 968**	**1 158 137**	**1 158 137**

Quality of loans and advances and collateral

SEPARATE	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	959 107	50 520	956 399	27 828	**1 993 854**
Loans secured with:					
Residential Real Estate	-	1 355 047	78 944	2 118	**1 436 109**
Comercial Real Estate	24	-	1 312 188	-	**1 312 212**
Cash	3 151	24	288 283	-	**291 458**
Other colaterals	216 341	-	763 345	68 730	**1 048 416**
Total consumer loans at 31.12.2019	**1 178 623**	**1 405 591**	**3 399 159**	**98 676**	**6 082 049**

CONSOLIDATED	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	959 053	50 520	961 053	29 954	**2 000 580**
Loans secured with:					
Residential Real Estate	-	1 355 047	78 944	2 118	**1 436 109**
Comercial Real Estate	78	-	1 312 242	-	**1 312 320**
Cash	3 151	24	288 283	-	**291 458**
Other colaterals	216 341	-	763 294	66 604	**1 046 239**
Total consumer loans at 31.12.2019	**1 178 623**	**1 405 591**	**3 403 816**	**98 676**	**6 086 706**

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

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

The table below provides information about UBB's exposure to credit risk as of December 31 2019 except for loans and advances to customers by classifying assets according to the credit rating of counterparties of Fitch Ratings AAA is the highest possible rating.
UBB's policy is to maintain accurate and consistent risk ratings. This allows management to focus on applicable risks and exposure comparison. The rating system is supported by a number of financial analyzes combined with processed market information to provide the main inputs for the counterparty risk assessment.

Information on the respective asset ratings as at 31 December 2019 and 31 December 2018 is presented in the table below:

SEPARATE AND CONSOLIDATED				
31 December 2019	**AAA to A-**	**BBB+ to B-**	**Not rated**	**Total**
Bonds	426 893	1 263 019	2 720	**1 692 632**
Cash with BNB and resources provided to banks	1 232 653	2 183 190	-	**3 415 843**
Total	**1 659 546**	**3 446 209**	**2 720**	**5 108 475**

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

Loans that are overdue but not impaired at the end of 2019 and 2018 respectively are presented in the table below:

SEPARATE	As of 31.12.2019	As of 31.12.2019
	Gross carrying amount	Gross carrying amount
	31 to 90 days	**Total**
Consumer loans	31 335	**31 335**
Mortgage loans	52 163	**52 163**
Large corporate clients	8 871	**8 871**
Small and mediumsized enterprises	87 247	**87 247**
Total	**179 616**	**179 616**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

CONSOLIDATED	As of 31.12.2019 Gross carrying amount 31 to 90 days	As of 31.12.2019 Gross carrying amount Total
Consumer loans	31 335	31 335
Mortgage loans	52 163	52 163
Large corporate clients	8 871	8 871
Small and mediumsized enterprises	87 248	87 248
Total	179 617	179 617

SEPARATE	As of 31.12.2018 Gross carrying amount 31 to 90 days	As of 31.12.2018 Gross carrying amount **Total**
Consumer loans	15 907	**15 907**
Mortgage loans	21 355	**21 355**
Large corporate clients	1 496	**1 496**
Small and mediumsized enterprises	5 470	**5 470**
Total	**44 228**	**44 228**

CONSOLIDATED	As of 31.12.2018 Gross carrying amount 31 to 90 days	As of 31.12.2018 Gross carrying amount **Total**
Consumer loans	15 907	**15 907**
Mortgage loans	21 355	**21 355**
Large corporate clients	725	**725**
Small and mediumsized enterprises	9 383	9 383
Total	**47 370**	**47 370**

Loans that are stage 1 splitted by PD class as of the end of 2019 and 2018 respectively are presented in the table below:

SEPARATE AND CONSOLIDATED	As of 31.12.2019	As of 31.12.2019	As of 31.12.2019	As of 31.12.2019
PD	Mortgage	Consumer	Corporate	Total
0	76	8 382	17 016	25 474
1	28 264	118 358	-	146 622
2	613 689	-	29 864	643 553
3	144 159	55 692	208 044	407 895
4	138 267	498 144	159 441	795 852
5	34 719	187 623	408 041	630 383
6	129 211	109 673	842 534	1 081 418
7	17 970	33 281	897 021	948 272
8	11 337	21 354	208 911	241 602
Gross Carrying Amount/Outs. Balance Total	**1 117 692**	**1 032 507**	**2 770 872**	**4 921 071**
ECL	**(292)**	**(3 127)**	**(18 749)**	**(22 168)**
Net loans	**1 117 400**	**1 029 380**	**2 752 123**	**4 898 903**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

SEPARATE AND CONSOLIDATED	As of 31.12.2018	As of 31.12.2018	As of 31.12.2018	As of 31.12.2018
PD	Mortgage	Consumer	Corporate	Total
0	-	-	196	196
1	25 955	14 622	-	40 577
2	502 083	26	78 575	580 684
3	187 646	165 842	49 476	402 964
4	131 121	388 340	128 046	647 507
5	39 514	194 969	417 346	651 829
6	88 769	106 150	596 186	791 105
7	19 222	66 338	767 803	853 363
8	11 360	41 322	196 295	248 977
Gross Carrying Amount/Outs. Balance Total	**1 005 670**	**977 609**	**2 233 923**	**4 217 202**
ECL	**(289)**	**(4 467)**	**(17 854)**	**(22 610)**
Net loans	**1 005 381**	**973 142**	**2 216 069**	**4 194 592**

The gross carrying amount of loans that are overdue and which have been impaired as of 31 December 2019 and 2018 is presented in the tables below:

Impaired loans

SEPARATE	As of 31.12.2019	As of 31.12.2019	As of 31.12.2019	As of 31.12.2019
	Gross carrying amount			
	31 to 90 days	91 to 180 days	Over 180 days	**Total**
Consumer loans	19 507	12 429	71 679	**103 615**
Mortgage loans	39 282	4 085	232 727	**276 094**
Large corporate clients	7 896	14 914	208 786	**231 596**
Small and mediumsized enterprises	81 301	10 702	658 978	**750 981**
Total	**147 986**	**42 130**	**1 172 170**	**1 362 286**

CONSOLIDATED	As of 31.12.2019	As of 31.12.2019	As of 31.12.2019	As of 31.12.2019
	Gross carrying amount			
	31 to 90 days	91 to 180 days	Over 180 days	**Total**
Consumer loans	19 507	12 429	71 679	**103 615**
Mortgage loans	39 282	4 085	232 727	**276 094**
Large corporate clients	7 896	13 469	209 117	**230 482**
Small and mediumsized enterprises	81 302	15 233	663 510	**760 045**
Total	**147 987**	**45 216**	**1 177 033**	**1 370 236**

SEPARATE	As of 31.12.2018	As of 31.12.2018	As of 31.12.2018	As of 31.12.2018
	Gross carrying amount			
	31 to 90 days	91 to 180 days	Over 180 days	**Total**
Consumer loans	19 150	10 160	27 761	**57 071**
Mortgage loans	43 525	15 505	95 541	**154 571**
Large corporate clients	27 238	3 937	125 027	**156 202**
Small and mediumsized enterprises	95 745	15 664	380 045	**491 454**
Total	**185 658**	**45 266**	**628 374**	**859 298**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. CREDIT RISK (CONTINUED)

CONSOLIDATED	As of 31.12.2018	As of 31.12.2018	As of 31.12.2018	As of 31.12.2018
	Gross carrying amount			
	31 to 90 days	91 to 180 days	Over 180 days	**Total**
Consumer loans	19 150	10 160	27 761	**57 071**
Mortgage loans	43 525	15 505	95 541	**154 571**
Large corporate clients	27 515	3 938	125 458	**156 911**
Small and mediumsized enterprises	95 745	15 664	380 045	**491 454**
Total	**185 935**	**45 267**	**628 805**	**860 007**

Forborne loans

Forbearance measures occur in situation in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties UBB decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract either totally or partially.

Forborne loans are separately managed and monitored by Management of UBB.

For the purpose of impairment calculation not cured forborne loans are assessed as a separate group within each portfolio. The allowance for impairment on forborne loans is calculated based on present values of expected future cash flows methodology considering all available evidence at the time of assessment.

Forborne Loans net of allowance for impairment by product line:

	As of 31.12.2019	As of 31.12.2018	As of 31.12.2019	As of 31.12.2018
Forborne Loans	**SEPARATE**	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Consumer	20 683	15 782	20 683	15 782
Mortgage	46 479	56 596	46 479	56 596
SME Loans	164 855	126 899	164 855	126 899
Corporate Loans	78 137	63 999	78 137	63 999
Total	**310 154**	**263 276**	**310 154**	**263 276**

Industry Concentration risk

Analysis by industries net of impairments	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
	SEPARATE	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Agriculture	308 814	264 095	308 814	264 095
Mining	8 881	11 837	8 881	11 837
Industry	1 049 279	897 949	1 049 279	897 949
Electricity and heat	142 627	161 871	142 627	161 871
Water suplly	26 554	44 548	26 554	44 548
Construction	154 796	133 271	154 796	133 271
Trade and services	844 103	716 289	844 103	716 289
Transportation	115 163	92 950	115 163	92 950
Hotel management	58 883	71 735	58 883	71 735
IT and comunications	75 562	26 830	75 562	26 830
Financial and Insuarance companies	132 802	119 166	102 944	99 764
Real estate	85 299	114 107	85 300	114 106
Public sector	97 111	65 154	97 111	65 154
Individuals and households	2 480 370	2 336 833	2 480 370	2 336 833
Other	152 846	121 420	184 693	142 286
Total	**5 733 090**	**5 178 055**	**5 735 080**	**5 179 518**

35. CREDIT RISK (CONTINUED)

Counterparty concentration risk

The next table presents the information of the large exposure of UBB as for 31 December 2019 and 2018:

SEPARATE	As of 31.12.2019		As of 31.12.2018	
	Amount	% of Equity	Amount	% of Equity
The largest total exposure	117 386	8.53%	69 663	5.02%
Total amount of five largest exposures	**329 395**	**23.93%**	**310 293**	**22.37%**

CONSOLIDATED	As of 31.12.2019		As of 31.12.2018	
	Amount	% of Equity	Amount	% of Equity
The largest total exposure	117 386	8.51%	69 663	5.00%
Total amount of five largest exposures	**329 395**	**23.89%**	**310 293**	**22.27%**

36. MARKET RISK

Foreign currency risk

The tables below summarize the exposure to foreign currency exchange rate risk as of December 31 2019 and 2018. Included in the table are UBB's assets and liabilities at carrying amounts in thousands BGN categorized by currency.

SEPARATE **Currency analisys** **31 December 2019**	**EUR**	**USD**	**BGN**	**Other**	**Total**
ASSETS					
Cash and balances with central banks	20 738	7 162	611 573	9 452	**648 925**
Due from banks	2 595 676	120 251	24 633	26 358	**2 766 918**
Loans and advances to customers net	1 864 265	8 621	3 860 204	-	**5 733 090**
Financial Assets through PL	7 195	-	27 208	-	**34 403**
Derivative financial instruments	-	-	1 191	-	**1 191**
Financial Assets FVOCI	626 604	22 907	312 863	-	**962 374**
Financial Assets AC	1 297 634	87 289	307 709	-	**1 692 632**
Investments in associates	-	-	21 368	-	**21 368**
Intangible assets	-	-	8 155	-	**8 155**
Fixed assets and Right-of-use Assets	-	-	136 643	-	**136 643**
Ivestment property	-	-	126 344	-	**126 344**
Deferred income tax assets	-	-	5 119	-	**5 119**
Other assets	10 244	1 170	24 123	1	**35 538**
TOTAL ASSETS	**6 422 356**	**247 400**	**5 467 133**	**35 811**	**12 172 700**

LIABILITIES	**EUR**	**USD**	**BGN**	**Other**	**Total**
Due to banks	306	7 124	1 576	638	**9 644**
Due to customers	2 291 176	698 910	5 664 086	94 824	**8 748 996**
Payables under repo agreements	1 797 115	-	-	-	**1 797 115**
Derivative financial instruments	6 216	-	4 426	-	**10 642**
Long term borrowings	126 100	-	-	-	**126 100**
Current income tax liabilities	-	-	2 098	-	**2 098**
Provisions	-	-	12 858	-	**12 858**
Lease liabilities	-	-	28 010	-	**28 010**
Deferred tax liabilities	-	-	-	-	**-**
Other liabilities	14 017	551	45 944	35	**60 547**
TOTAL LIABILITIES	**4 234 930**	**706 585**	**5 758 998**	**95 497**	**10 796 010**
TOTAL EQUITY	**-**	**-**	**1 376 690**	**-**	**1 376 690**
NET BALANCE SHEET POSITION	**2 187 426**	**(459 185)**	**(291 865)**	**(59 686)**	**1 376 690**
NET OFF-BALANCE SHEET POSITION	**(1 928 432)**	**458 829**	**1 409 644**	**59 723**	**(236)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. MARKET RISK (CONTINUED)

Foreign currency risk (Continued)

CONSOLIDATED

Currency analisys 31 December 2019	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	20 738	7 162	611 573	9 452	**648 925**
Due from banks	2 595 676	120 251	24 633	26 358	**2 766 918**
Loans and advances to customers net	1 864 265	8 621	3 862 194	-	**5 735 080**
Financial Assets through PL	7 195	-	27 208	-	**34 403**
Derivative financial instruments	-	-	1 191	-	**1 191**
Financial Assets FVOCI	626 604	22 907	312 864	-	**962 375**
Financial Assets AC	1 297 634	87 289	307 709	-	**1 692 632**
Investments in associates	-	-	3 560	-	**3 560**
Intangible assets	-	-	8 244	-	**8 244**
Fixed assets and Right-of-use Assets	-	-	136 820	-	**136 820**
Ivestment property	-	-	136 753	-	**136 753**
Deferred income tax assets	-	-	5 238	-	**5 238**
Other assets	10 244	1 170	25 515	1	**36 930**
TOTAL ASSETS	**6 422 356**	**247 400**	**5 463 502**	**35 811**	**12 169 069**

LIABILITIES	EUR	USD	BGN	Other	Total
Due to banks	306	7 124	1 576	638	**9 644**
Due to customers	2 291 176	698 910	5 657 750	94 824	**8 742 660**
Payables under repo agreements	1 797 115	-	-	-	**1 797 115**
Derivative financial instruments	6 216	-	4 426	-	**10 642**
Long term borrowings	126 100	-	-	-	**126 100**
Current income tax liabilities	-	-	2 098	29	**2 127**
Provisions	-	-	12 869	-	**12 869**
Lease liabilities	-	-	28 088	-	**28 088**
Deferred tax liabilities	-	-	15	-	**15**
Other liabilities	14 017	551	46 590	35	**61 193**
TOTAL LIABILITIES	**4 234 930**	**706 585**	**5 753 412**	**95 526**	**10 790 453**
TOTAL EQUITY	**-**	**-**	**1 378 616**	**-**	**1 378 616**
NET BALANCE SHEET POSITION	**2 187 426**	**(459 185)**	**(289 910)**	**(59 715)**	**1 378 616**
NET OFF-BALANCE SHEET POSITION	**(1 928 432)**	**458 829**	**1 409 644**	**59 723**	**(236)**

SEPARATE

Currency analisys 31 December 2018	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	978 841	9 053	766 681	7 824	**1 762 399**
Due from banks	1 860 525	21 631	22 588	28 234	**1 932 978**
Loans and advances to customers net	2 608 368	12 695	2 551 262	5 730	**5 178 055**
Financial Assets through PL	6 150	-	26 535	-	**32 685**
Derivative financial instruments	-	-	9 379	-	**9 379**
Financial Assets FVOCI	636 491	42 804	341 342	-	**1 020 637**
Financial Assets AC	878 421	61 711	87 146	-	**1 027 278**
Investments in associates	-	-	18 893	-	**18 893**
Intangible assets	-	-	5 093	-	**5 093**
Fixed assets	-	-	100 218	-	**100 218**
Ivestment property	-	-	128 141	-	**128 141**
Deferred income tax assets	-	-	5 575	-	**5 575**
Other assets	10 037	1 119	18 222	41	**29 419**
Non-current assets held for sale	-	-	15 277	-	**15 277**
TOTAL ASSETS	**6 978 833**	**149 013**	**4 096 352**	**41 829**	**11 266 027**

LIABILITIES	EUR	USD	BGN	Other	Total
Due to banks	1 154 828	20 860	2 055	747	**1 178 490**
Due to customers	2 269 313	555 539	5 246 363	101 270	**8 172 485**
Payables under repo agreements	331 619	-	-	-	**331 619**
Derivative financial instruments	3 724	-	1 713	-	**5 437**
Long term borrowings	133 712	-	(71)	-	**133 641**
Provisions	-	-	15 884	-	**15 884**
Other liabilities	5 262	233	35 966	196	**41 657**
TOTAL LIABILITIES	**3 898 458**	**576 632**	**5 301 910**	**102 213**	**9 879 213**
TOTAL EQUITY	**-**	**-**	**1 386 814**	**-**	**1 386 814**
NET BALANCE SHEET POSITION	**3 080 375**	**(427 619)**	**(1 205 558)**	**(60 384)**	**1 386 814**
NET OFF-BALANCE SHEET POSITION	**(2 092 021)**	**425 848**	**1 617 505**	**60 969**	**12 301**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. MARKET RISK (CONTINUED)
Foreign currency risk (Continued)

CONSOLIDATED					
Currency analisys					
31 December 2018	**EUR**	**USD**	**BGN**	**Other**	**Total**
ASSETS					
Cash and balances with central banks	978 841	9 053	766 682	7 824	**1 762 400**
Due from banks	1 860 525	21 631	22 588	28 234	**1 932 978**
Loans and advances to customers net	2 608 368	12 695	2 552 725	5 730	**5 179 518**
Financial Assets through PL	6 150	-	26 535	-	**32 685**
Derivative financial instruments	-	-	9 379	-	**9 379**
Financial Assets FVOCI	636 491	42 804	341 343	-	**1 020 638**
Financial Assets AC	878 421	61 711	87 146	-	**1 027 278**
Investments in associates	-	-	2 776	-	**2 776**
Intangible assets	-	-	5 190	-	**5 190**
Fixed assets	-	-	100 335	-	**100 335**
Ivestment property	-	-	138 987	-	**138 987**
Deferred income tax assets	-	-	5 572	-	**5 572**
Other assets	10 038	1 119	19 271	41	**30 469**
Non-current assets held for sale	-	-	15 276	-	**15 276**
TOTAL ASSETS	**6 978 834**	**149 013**	**4 093 805**	**41 829**	**11 263 481**
LIABILITIES	**EUR**	**USD**	**BGN**	**Other**	**Total**
Due to banks	1 154 828	20 860	2 055	747	**1 178 490**
Due to customers	2 269 313	555 539	5 237 192	101 271	**8 163 315**
Payables under repo agreements	331 619	-	-	-	**331 619**
Derivative financial instruments	3 724	-	1 713	-	**5 437**
Long term borrowings	133 712	-	(71)	-	**133 641**
Debt securities in issue	-	-	-	-	**-**
Current income tax liabilities	-	-	214	-	**214**
Deferred income tax liabilities	-	-	-	-	**-**
Provisions	-	-	15 929	-	**15 929**
Other liabilities	5 262	233	36 338	196	**42 029**
TOTAL LIABILITIES	**3 898 458**	**576 632**	**5 293 370**	**102 214**	**9 870 674**
TOTAL EQUITY	**-**	**-**	**1 392 807**	**-**	**1 392 807**
NET BALANCE SHEET POSITION	**3 080 376**	**(427 619)**	**(1 199 565)**	**(60 385)**	**1 392 807**
NET OFF-BALANCE SHEET POSITION	**(2 092 021)**	**425 848**	**1 617 507**	**60 969**	**12 303**

UBB measures the economic value of equity (EVE) vulnerability to unfavorable changes in interest rates separately for any of the main currencies in which UBB operates and the results are used for making management decisions.

The negative sign of the mismatch means that the interest rate sensitive liabilities are larger than the interest rate sensitive assets in the concrete time band.

The techniques for managing interest rate risk generated by the positions in the banking book are: change in the administered interest rates on loans and deposits change in the maturity of the offered credit and deposit products change in the amount of fees and commissions interest rate derivatives etc.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. MARKET RISK (CONTINUED)
Interest rate risk

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

SEPARATE

31 December 2019	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	648 925	**648 925**
Deposits placed with banks	2 413 826	-	353 092	**2 766 918**
FVOCI	804 200	-	22 478	**826 678**
Investments at amortized cost	1 692 632	-	-	**1 692 632**
Loans and advances to clients	303 132	5 429 958	-	**5 733 090**
Total assets	**5 213 790**	**5 429 958**	**1 024 495**	**11 668 243**
Liabilities				
Deposits from banks	104 883	30 861	-	**135 744**
Deposits from clients	8 748 996	-	-	**8 748 996**
Payables on repo agreements	1 797 115	-	-	**1 797 115**
Total liabilities	**10 650 994**	**30 861**	-	**10 681 855**
Difference in interest rates	(5 437 204)	5 399 097	1 024 495	**986 388**

CONSOLIDATED

31 December 2019	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	648 925	**648 925**
Deposits placed with banks	2 413 826	-	353 092	**2 766 918**
FVOCI	804 200	-	22 478	**826 678**
Investments at amortized cost	1 692 632	-	-	**1 692 632**
Loans and advances to clients	303 132	5 431 948	-	**5 735 080**
Total assets	**5 213 790**	**5 431 948**	**1 024 495**	**11 670 233**
Liabilities				
Deposits from banks	104 883	30 861	-	**135 744**
Deposits from clients	8 742 660	-	-	8 742 660
Payables on repo agreements	1 797 115	-	-	**1 797 115**
Total liabilities	**10 644 658**	**30 861**	-	**10 675 519**
Difference in interest rates	(5 430 868)	5 401 087	1 024 495	**994 714**

In the table above, the securities available for sale which are hedged against interest rate risk are excluded. Further, the securities in Trading book are out of scope.

36. MARKET RISK (CONTINUED)
Interest rate risk (continued)

In the table below, the amount of interest and non-interest bearing assets and liabilities as at 31.12.2018 are presented:

SEPARATE 31 December 2018	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	1 762 399	**1 762 399**
Deposits placed with banks	1 384 348	-	548 630	**1 932 978**
FVOCI	862 243	5 060	928	**868 231**
Investments at amortized cost	1 027 278	-	-	**1 027 278**
Loans and advances to clients	1 904 304	3 273 751	-	**5 178 055**
Total assets	**5 178 173**	**3 278 811**	**2 311 957**	**10 768 941**
Liabilities				
Deposits from banks	1 115 122	32 075	31 293	**1 178 490**
Deposits from clients	8 172 485	-	-	**8 172 485**
Payables on repo agreements	331 619	-	-	**331 619**
Total liabilities	**9 619 226**	**32 075**	**31 293**	**9 682 594**
Difference in interest rates	(4 441 053)	3 246 736	2 280 664	**1 086 347**

CONSOLIDATED 31 December 2018	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Account in Central Bank	-	-	1 762 400	**1 762 400**
Deposits placed with banks	1 384 371	-	548 607	**1 932 978**
FVOCI	862 243	5 060	928	**868 231**
Investments at amortized cost	1 027 278	-	-	**1 027 278**
Loans and advances to clients	1 905 767	3 273 751	-	**5 179 518**
Total assets	**5 179 659**	**3 278 811**	**2 311 935**	**10 770 405**
Liabilities				
Deposits from banks	1 115 122	32 075	31 293	**1 178 490**
Deposits from clients	8 163 315	-	-	**8 163 315**
Payables on repo agreements	331 619	-	-	**331 619**
Total liabilities	**9 610 056**	**32 075**	**31 293**	**9 673 424**
Difference in interest rates	(4 430 397)	3 246 736	2 280 642	**1 096 981**

The table below provides information of net interest income sensitivity and the sensitivity of equity as at 31.12.2019 and 31.12.2018 assuming reasonably change in interest rates, ceteris paribus:

31 December 2019	**in `000 BGN**	**in `000 BGN**
Increase in basis point	**Sensitivity of net interest income**	**Sensitivity of equity**
100/(-100)	6 934/(-10 839)	(-14 592)/9 480
200/(-200)	15 071/ (-20 954)	(-29 184)/18 961
300/(-300)	23 207/ (-31 068)	(-43 777)/28 441

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. LIQUIDITY RISK

The liquidity risk is related to possible unfavorable impact to the profit and capital of UBB arising from the institution's inability to meet its obligations when they come due without incurring unacceptable losses.

UBB manages its assets and liabilities in a manner guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay both in a normal environment and under stress conditions. UBB invests mainly in liquid assets and maintains an average of 46% ratio of liquid assets to total liabilities. Moreover, UBB maintains LCR and NSFR levels well above the regulatory required

UBB have a solid funding structure as its loan portfolio is largely funded by customers' deposits. UBB's funding strategy is to develop a diversified funding base by depositor type and have access to a variety of alternative funding sources in order to be protected against unexpected fluctuations and minimize the cost of funding.

UBB applies regular stress-tests in order to evaluate the liquidity risk for UBB under unfavorable economic and market scenarios. The stress-tests are based on assumptions with different parameters of shock and on their impact on the inflow and outflow of funds.

SEPARATE	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
MATURITY ANALYSIS						
31 December 2019						
ASSETS	2 975 151	499 860	1 601 440	3 581 720	3 514 529	**12 172 700**
TOTAL ASSETS	**2 975 151**	**499 860**	**1 601 440**	**3 581 720**	**3 514 529**	**12 172 700**
LIABILITIES						
Due to banks	1 476 489	-	242 850	87 420	-	1 806 759
Due to customers	7 453 876	300 140	972 520	22 460	-	8 748 996
Derivative financial instruments	10 642	-	-	-	-	10 642
Other borrowed funds	381	19 558	19 558	39 418	47 185	126 100
Other liabilities	103 513	-	-	-	-	103 513
TOTAL LIABILITIES	**9 044 901**	**319 698**	**1 234 928**	**149 298**	**47 185**	**10 796 010**
Contingent liabilities	1 520 797	-	-	-	-	**1 520 797**

CONSOLIDATED	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
MATURITY ANALYSIS						
31 December 2019						
ASSETS	2 975 151	499 860	1 601 440	3 581 720	3 510 898	**12 169 069**
TOTAL ASSETS	**2 975 151**	**499 860**	**1 601 440**	**3 581 720**	**3 510 898**	**12 169 069**
LIABILITIES						
Due to banks	1 476 489	-	242 850	87 420	-	**1 806 759**
Due to customers	7 447 540	300 140	972 520	22 460	-	**8 742 660**
Derivative financial instruments	10 642	-	-	-	-	**10 642**
Long term borrowings	381	19 558	19 558	39 418	47 185	**126 100**
Other liabilities	104 292	-	-	-	-	**104 292**
TOTAL LIABILITIES	**9 039 344**	**319 698**	**1 234 928**	**149 298**	**47 185**	**10 790 453**
Contingent liabilities	1 520 797	-	-	-	-	**1 520 797**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. LIQUIDITY RISK (CONTINUED)

SEPARATE	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
MATURITY ANALYSIS						
31 December 2018						
ASSETS	2 973 825	395 827	1 981 880	2 736 500	3 177 995	11 266 027
TOTAL ASSETS	**2 973 825**	**395 827**	**1 981 880**	**2 736 500**	**3 177 995**	**11 266 027**
LIABILITIES						
Due to banks	1 178 489	-	-	331 620	-	**1 510 109**
Due to customers	6 879 525	349 000	915 680	28 280	-	**8 172 485**
Derivative financial instruments	5 437	-	-	-	-	**5 437**
Other borrowed funds	351	-	-	65 846	67 444	**133 641**
Other liabilities	57 541	-	-	-	-	**57 541**
TOTAL LIABILITIES	**8 121 343**	**349 000**	**915 680**	**425 746**	**67 444**	**9 879 213**
Contingent liabilities	1 136 968	-	-	-	-	**1 136 968**

CONSOLIDATED	Subject to notice and up to 1 month	1 to 3 fmonths	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
MATURITY ANALYSIS						
31 December 2018						
ASSETS	2 973 825	395 827	1 981 880	2 736 500	3 175 449	11 263 481
TOTAL ASSETS	**2 973 825**	**395 827**	**1 981 880**	**2 736 500**	**3 175 449**	**11 263 481**
LIABILITIES						
Due to banks	1 178 489	-	-	331 620	-	**1 510 109**
Due to customers	6 870 355	349 000	915 680	28 280	-	**8 163 315**
Derivative financial instruments	5 437	-	-	-	-	**5 437**
Long term borrowings	351	-	-	65 846	67 444	**133 641**
Other liabilities	58 172	-	-	-	-	**58 172**
TOTAL LIABILITIES	**8 112 804**	**349 000**	**915 680**	**425 746**	**67 444**	**9 870 674**
Contingent liabilities	1 158 137	-	-	-	-	**1 158 137**

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 UBB's statement of financial position at fair value.

SEPARATE		2019		2018
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Cash and balances with the Central Bank	648 925	648 925	1 762 399	1 762 399
Due from banks	2 766 918	2 766 918	1 932 978	1 932 978
Investments at amortized cost	1 692 632	1 813 521	1 027 278	998 189
Loans and advances to customers, net	5 733 090	5 802 078	5 178 055	5 208 289
TOTAL ASSETS	**10 841 565**	**11 031 442**	**9 900 710**	**9 901 855**
LIABILITIES				
Due to customers	8 748 996	8 748 148	8 172 485	8 172 924
Other borrowed funds	126 100	126 100	133 641	133 641
TOTAL LIABILITIES	**8 875 096**	**8 874 248**	**8 306 126**	**8 306 565**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

CONSOLIDATED	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
ASSETS				
Cash and balances with the Central Bank	648 925	648 925	1 762 400	1 762 400
Due from banks	2 766 918	2 766 918	1 932 978	1 932 978
Investments at amortized cost	1 692 632	1 813 521	1 027 278	998 189
Loans and advances to customers, net	5 735 080	5 804 068	5 179 518	5 209 752
TOTAL ASSETS	**10 843 555**	**11 033 432**	**9 902 174**	**9 903 319**
LIABILITIES				
Due to customers	8 742 660	8 741 812	8 163 315	8 163 754
Other borrowed funds	126 100	126 100	133 641	133 641
TOTAL LIABILITIES	**8 868 760**	**8 867 912**	**8 296 956**	**8 297 395**

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2019 and 2018:

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.

No transfers of financial instruments from Level 1 to Level 2 occurred for the year ended December 31, 2019.

Level 3 financial instruments at December 31, 2019 include:
Financial assets FVOCI and at amortized cost which are price-based and the price is subject to liquidity adjustments or credit value adjustments which are valued by independent valuers based on inputs such as earnings forecasts comparable multiples of Economic Value to EBITDA and other parameters which are not market observable.

UBB conducts a review of the fair value hierarchy classifications on an annually basis.

No transfers into or out of Level 3 occurred for the year ended December 31, 2019.

Valuation Process and Control Framework

UBB has various processes in place to ensure that the fair values of its assets and liabilities are reasonably estimated and has established a control framework which is designed to ensure that fair values are validated by functions independent of the risk-taker. To that end UBB utilizes various sources for determining the fair values of its financial instruments and uses its own independent functions to validate these results where possible.

Fair values of debt securities are determined either by reference to prices for traded instruments in active markets to external quotations or widely accepted financial models which are based on market observable or unobservable information where the former is not available as well as relevant market-based parameters such as interest rates option fluctuations currency rates etc. and may also include a liquidity risk adjustment where UBB considers it appropriate.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

UBB may sometimes also utilize third-party pricing information and perform validating procedures on this information or base its fair value on the latest transaction prices available given the absence of an active market or similar transactions. All such instruments are categorized within the lowest level of fair value hierarchy (i.e. Level 3).
Generally fair values of debt securities including significant inputs on the valuation models are independently checked and validated by Risk Management Directorate on a regular basis.
Fair value of derivatives is determined using valuation models which include discounted cash-flow models or other appropriate models. Adequate control procedures are in place for the validation of these models including the valuation inputs on systematic basis. Risk Management Directorate provides the control valuation framework necessary to ensure that the fair values are reasonably determined reflecting current market and economic conditions.

Market Valuation Adjustments

The output of a valuation technique is always an estimate or approximation of a fair value that cannot be measured with complete certainty. As a result valuations are adjusted where appropriate to reflect close-out costs credit exposure model driven valuation uncertainty trading restrictions and other factors when such factors would be considered by market participants in measuring fair value.

Sensitivity of Fair Value measurements to changes in unobservable inputs

Due to UBB’s limited exposure to investment securities measured at fair value for which the market valuation adjustments are significant to their fair value a reasonable change in the unobservable inputs would not be significant to UBB.

39. CAPITAL AND CAPITAL BASE

UBB determines its risk-bearing capacity on the basis of the capital resources available for covering losses generated by UBB’s risk profile. During the management of its capital-at-risk UBB observes the regulatory instructions as well as its own objectives.

The minimum requirements in 2019 applicable to Bulgaria and more specifically to UBB AD following the implementation of the requirements of Directive 2013/36/EU and Regulation (EU) No 575/2013 include maintaining of total capital adequacy of not less than 13.75% and tier-one capital adequacy of not less than 11.75%. These levels include respectively 8% total capital adequacy and 6% tier-one capital adequacy as well as 2.5% Capital Conservation Buffer 3% Systemic Risk Buffer and 0.25% Buffer for O-SIIs.
UBB has complied with the regulatory requirements of minimum capital adequacy for 2019 and for 2018.
In accordance with the regulatory framework UBB allocates capital for covering the capital requirements for credit risk market risk and operational risk applying the Standardized Approach.

Regulatory Capital (Own Funds)

The capital base (own funds) includes tier-one and tier-two capital in accordance with the applicable regulatory requirements.

CAPITAL AND CAPITAL BASE	As of 31.12.2019	As of 31.12.2018	As of 31.12.2019	As of 31.12.2018
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Paid up capital instruments	93 838	93 838	93 838	93 838
Reserves incl. retained earnings	1 067 550	1 067 546	1 073 536	1 077 296
Other comprehensive income	60 469	56 025	60 469	49 540
Common Equity Tier I deductions	(10 146)	(10 548)	(10 531)	(10 316)
Common Equity Tier I Capital (CET1)	1 211 711	1 206 861	1 217 312	1 210 358
Total Tier I Capital	**1 211 711**	**1 206 861**	**1 217 312**	**1 210 358**
Total Regulatory Capital (own funds)	1 211 711	1 206 861	1 217 312	1 210 358
Common Equity Tier 1 Capital ratio	19.04%	21.52%	19.15%	21.51%
Tier 1 Capital ratio	19.04%	21.52%	19.15%	21.51%
Total capital ratio	**19.04%**	**21.52%**	**19.15%**	**21.51%**
Surplus(+)/Deficit(-) of total capital	**702 520**	**758 294**	**708 858**	**760 148**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. CAPITAL AND CAPITAL BASE

Risk Weighted Assets

The changes in the RWA structure and amounts are related to the respective changes in UBB's assets structure.

Capital requirements

As of December 31, 2019 and December 31, 2018 the capital requirements for credit market and operational risks are as follows:

Risk Weighted Assets	As of 31.12.2019 SEPARATE	As of 31.12.2018 SEPARATE	As of 31.12.2019 CONSOLIDATED	As of 31.12.2018 CONSOLIDATED
Credit Risk including exposures to:	5 435 645	4 776 922	5 426 313	4 790 791
Central governments or central banks	454 354	274 160	454 354	274 160
Regional governments or local authorities	16 085	9 835	16 085	9 835
Public sector entites	1 354	-	1 354	-
Institutions	198 046	166 025	198 046	166 025
Corporates	2 019 095	1 588 226	2 005 577	1 589 838
Retail	1 233 489	1 236 866	1 240 373	1 245 662
Secured by mortgages on immovable property	734 661	610 169	734 661	610 169
Exposures in default	418 431	546 446	421 127	550 684
Collective investments undertakings (CIU)	4 015	6 654	4 015	6 420
Equity	43 846	37 519	26 048	24 727
Other items	312 269	301 022	324 673	313 271
Operational Risk	763 713	779 913	763 838	786 588
Market Risk	165 525	50 250	165 525	50 250
TOTAL RISK EXPOSURE AMOUNT	**6 364 883**	**5 607 085**	**6 355 676**	**5 627 629**

Separate and consolidated basis of preparation:

UBB's capital position significantly exceeds the regulatory minimum. The total capital adequacy as of December 31, 2019 as per CRD IV regulatory framework amounts to 19.04% (based on total Regulatory Capital on solo basis at BGN 1 212 million) and Tier 1 capital adequacy amounts to 19.04%.

UBB's capital position significantly exceeds the regulatory minimum. The total capital adequacy as of December 31st 2019 as per CRD IV regulatory framework amounts to 19.15% (based on total Regulatory Capital on consolidated basis at BGN 1 217 million) and Tier 1 capital adequacy amounts to 19.15%.

40. RELATED PARTY TRANSACTIONS

The ultimate parent bank is KBC Group NV Belgium. UBB is controlled by KBC Bank N.V. which owns 99.92% of the ordinary shares of UBB

On 5th February 2018 a merger between United Bulgarian Bank AD (UBB) and CIBANK EAD was registered in the Commercial Registry and this is the date of the transaction.
Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. A number of banking transactions are performed with related parties in the normal course of business. These include mostly loans and deposits. These transactions were carried out on commercial terms and conditions and at market rates.

Business transactions with related parties are carried out in the normal course of business. These transactions were made at market prices and commercial terms as would be done between independent trading partners.

The total amount of annual remuneration of Executive Directors and members of the Management Board is BGN 3 228 thousand.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

41. RELATED PARTY TRANSACTIONS

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

As of December 31, 2019 UBB has performed transactions with the following related parties:

As of 31 December 2019 – Separate	KBC Bank NV	KBC Group	Subsidiaries companies	Associate companies
Loans and advances from clients (agreed interest %: 0; 5)	-	-	30 544	-
Receivables on repo agreements	2 287 637	-	-	-
Other demand deposits due to banks	412 949	-	-	-
Derivatives held for trading- assets	1 093	-	-	-
Other assets	-	994	-	-
Total Assets	**2 701 679**	**994**	**30 544**	**-**
Deposits received	-	-	6 335	-
Payables on repo agreements (agreed interest %: -0.34 to -0.40; weighted average interest %: -0.39)	1 797 115	-	-	-
Funds attracted from clients (agreed interest %: 0 to 8.05; weighted average interest %: 0.38)	1 931	61 702	-	679
Derivatives held for trading – liability	4 334	-	-	-
Derivatives held for hedging – liability	6 043	-	-	-
Other liabilities	-	113	49	1 540
Total Liabilities	**1 809 423**	**61 815**	**6 384**	**2 219**
Interest income	2 751	233	4	-
Fee and commission income	10	14 360	378	1 827
Other income	284	617	22	-
Total income	**3 045**	**15 210**	**404**	**1 827**
Interest (expenses)	5 633	7	-	-
Fee and commission expenses	551	903	24	-
Administrative expenses	8 902	10 936	-	-
Other expenses	-	-	722	-
Total Expenses	**15 086**	**11 846**	**746**	**-**

As of 31 December 2019 – Consolidated	KBC Bank NV	KBC Group	Associate companies
Loans and advances from clients (agreed interest %: 0; 5)	-	-	-
Receivables on repo agreements	2 287 637	-	-
Other demand deposits due to banks	412 949	-	-
Derivatives held for trading- assets	1 093	-	-
Other assets	-	994	-
Total Assets	**2 701 679**	**994**	-
Payables on repo agreements (agreed interest %: -0.34 to -0.40; weighted average interest %: -0.39)	1 797 115	-	-
Funds attracted from clients (agreed interest %: 0 to 8.05; weighted average interest %: 0.38)	1 931	61 702	679
Derivatives held for trading – liability	4 334	-	-
Derivatives held for hedging – liability	6 043	-	-
Other liabilities	-	113	1 540
Total Liabilities	**1 809 423**	**61 815**	**2 219**
Interest income	2 751	233	-
Fee and commission income	10	14 360	-
Other income	284	617	-
Total income	**3 045**	**15 210**	-
Interest (expenses)	5 633	7	-
Fee and commission expenses	551	903	1 827
Administrative expenses	8 902	10 936	-
Total Expenses	**15 086**	**11 846**	**1 827**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

Subsidiary and associated companies included in the separate financial statements.

Transactions between UBB its subsidiaries (UBB Factoring EOOD UBB Asset Management AD, UBB Insurance Broker AD, East Golf Properties EAD and UBB Centre Management EOOD) associated company (Druzhestvo za Kasovi Uslugi AD) and mutual funds managed by UBB Asset Management AD (UBB Balanced Fund UBB Premium Shares Fund and UBB Platinum Bonds Fund) are related mainly to fees and commissions for the main activity of the entities and to maintaining of deposits and current accounts.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. RELATED PARTY TRANSACTIONS (CONTINUED)

Associated companies included in the consolidated financial statements.
Transactions between UBB its associated company (Druzhestvo za Kasovi Uslugi AD) and mutual funds managed by UBB Asset Management AD (UBB Balanced Fund UBB Premium Shares Fund and UBB Platinum Bonds Fund) are related mainly to fees and commissions for the main activity of the entities and to maintaining of deposits and current accounts.

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

Shares in mutual funds managed by the subsidiary UBB Asset Management AD	Separate	Separate	Consolidated	Consolidated
UBB Balanced Fund	2 162	2 587	2 162	2 587
UBB Premium Shares Fund	1 853	2 267	1 853	2 267
UBB Platinum Bonds Fund	-	1 567	-	1 567
Total	**4 015**	**6 421**	**4 015**	**6 421**

41. INFORMATION BASED ON REQUIREMENT OF ART. 70 § 6 FROM LAW FOR CREDIT INSTITUTIONS

The Bank holds a bank license granted by the Bulgarian National Bank to take deposits in local and foreign currency trade with foreign currencies trade with and invest in treasury bonds and other securities and perform other banking operations. The Bank does not have subsidiaries and branches located outside Bulgaria. The subsidiaries are operating in insurance brokerage assets management and factoring line of business. UBB has not received any government grants as of December 31 2019. The separate and consolidated performance is presented below:

As at December 31, 2019	Geographical location	Size of the turnover	Equivalent number of full-time employees	Financial result before tax	Taxation	Return on assets obtained as the ratio of net profit to total assets
Bank	Bulgaria	435 589	2 801	171 547	(16 712)	1.27%
Group	Bulgaria	436 414	2 845	167 919	(17 009)	1.24%

As at December 31, 2018	Geographical location	Size of the turnover	Equivalent number of full-time employees	Financial result before tax	Taxation	Return on assets obtained as the ratio of net profit to total assets
Bank	Bulgaria	408 714	2 921	195 441	(19 317)	1.56%
Group	Bulgaria	417 623	3 036	191 738	(19 253)	1.53%

42. BUSINESS COMBINATIONS

On 13 June 2017 KBC finalized the acquisition of UBB (or “acquiree”). Thereafter KBC took a decision to operate its business in Bulgaria by combined/ merged Bank transferring Assets/Liabilities of Cibank (transferring bank) into UBB (receiving bank).
The legal merger date was on 05th of February 2018 and this is the date when the merger has been registered in the Trade registry.
IFRS interpretation for the transfer date are as follows:

- Pooling of interest approach

As both banks are under common control IFRS 3 is not applicable (reference to IFRS 3 paragraphs is included below). The merger between UBB and CIBANK can be processed based on ‘predecessor accounting’ (or also referred to as ‘pooling of interest’): this method is based on accounting continuity for both companies so no purchase price accounting involved and no goodwill will be calculated and booked.

42. BUSINESS COMBINATIONS (CONTINUED)

In case of no relevant IFRS for a merger of entities under common control from accounting point of view the carrying amounts of Assets and Liabilities of the Transforming bank as of the Merger date become the carrying amount of A/L in the Acquiring bank.
The alignment of accounting policies is going to be done before the merger date so that the United bank (merged bank) applies one and the same accounting policies.

- Transfer date for accounting purposes

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

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

- TRADE ACT definition for the transfer date:

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

- Tax purposes:

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

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

42. BUSINESS COMBINATIONS (CONTINUED)

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

	As of 31.12.2018	As of 31.12.2018
Business Combinations	**Attributed fair value**	**Attributed fair value**
Cash and cash equivalents	1 070 520	1 070 520
Loans and advances to customers	1 836 041	1 836 041
Other financial assets	609 575	609 575
Other assets	103 668	103 668
Due to banks	1 364 295	1 364 295
Customer accounts	1 828 445	1 828 445
Financial liabilities	3 851	3 851
Contingent tax exposures	440	440
Other liabilities	37 901	37 901
Fair value of identifiable net assets of subsidiary	**384 872**	**384 872**

43. EVENTS AFTER THE REPORTING PERIOD

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Bank considers this outbreak to be a non-adjusting post balance sheet event. The outbreak and global spread of the coronavirus will exert downward pressure on our results in 2020 (but not have any impact on our financial position at year-end 2019). As a measure to respond to the COVID crisis and to the economic consequences, the Association of the Bulgarian Banks proposed to the Bulgarian National Bank support measures through a private Moratorium for companies and individuals affected by the crisis that are not treated as non-performing under Regulation 575.

Those measures aim to support our clients that face liquidity shortages and difficulties in timely payment of their financial and other commitments by providing temporary postponement (up to 6 months) of repayment of their obligation. Given the new government, regulatory and/or sector-related measures are being taken every day, it is impossible at this stage to make a reliable estimate of what the consequences will be for the global economy and, more specifically, for our Bank. We are, of course, closely monitoring the situation. As always, we are adopting a cautious and conservative approach, even though our solid capital and liquidity positions are such that we are able to withstand extreme scenarios. For more details please refer to Annual Activity Report, Note 1.12. Information about subsequent event after the date of preparation of the financial statement.

On 31 March 2020, the Bank concluded a Share Purchase Agreement (“SPA”) with KBC Asset Management NV for the sale of its shareholding of 91% (or 636 shares) in UBB Asset Management at the amount BGN 1 599 thousand. The price was determined by independent external valuator.

Except the above disclosed events after the reporting period, there are no other events after the date of preparation of financial statements which might have impact on the presentation of financial information for the year ended 31 December 2019.