ANNUAL DISCLOSURE
YEAR 2020
ON CONSOLIDATED BASIS

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

CONTENT

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

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

1. Scope and Consolidation Methods

This disclosure report has been prepared on a consolidated basis with data as of December 31, 2020, as per Article 70 para.3 of the Law on Credit Institutions.

The subsidiaries and affiliated companies in the corporate structure of UBB as of December 2020 are the following:

Company	Share of the company's capital	Consolidation
UBB Factoring EOOD	100%	Fully consolidated
UBB Insurance Broker EAD	100%	Fully consolidated
East Golf Properties EAD	100%	Fully consolidated
UBB Center Management EOOD	100%	Fully consolidated
Cash Services Company AD	25%	Equity Method Investment

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

2. Risk Management Policies and Rules

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

- *Strategic* – Risk management is first and foremost the responsibility of the Management Board (MB). Management Board make all decisions regarding the risk management framework of the Bank, the risk limits and appetite and the risk management policies, assisted by the MB Local Risk Management Committee (LRMC). Supervisory Board (SB) approves and controls the proposed by Management Board risk management framework and risk appetite, assisted by the Risk and Compliance Committee (RCC).
- *Tactical* – UBB Senior Management has the responsibility to implement the Risk Management Framework and Risk Appetite, defined by the Management Board and approved by the Supervisory Board, across the organisation.

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

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

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

The CRO leads the LRMC and administratively reports to the Bank's CEO but at the same time is directly supervised by the Group Chief Risk Officer and is part of the Group Risk Management at KBC and whenever he considers necessary, has direct access to the Group Risk Management of KBC, as well as to Risk and Compliance committee (RCC) of the Supervisory Board and Audit Committee. The Risk Management Directorate and its Director are actively involved in senior management risk-related committees.

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

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

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

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

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

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

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

Risk measurement and assessment is performed through utilization of methods based on the best banking practices; the accepted methodologies and procedures are regularly reviewed and updated from the involved units/bodies.
There is ongoing and effective monitoring of the risks undertaken by the Bank. Risk Management Directorate informs the Executive Management for these risks through regular and ad hoc reports to the Local Risk Management Committee (LRMC) and other relevant committees.

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

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

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

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

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

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

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

3. Regulatory Capital and Capital Adequacy

3.1. Structure and Elements of Own Funds

The regulatory capital (own funds) includes Tier-I and Tier-II capital, according to Regulation (EU) 575/2013.

The Bank does not apply the requirements of Regulation (EU) No 2017/2395 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds.

The table below provides detailed information on the capital position of United Bulgarian Bank.

BGN Thousand	**31 December 2020**
Paid up capital instruments	**93 838**
Premium reserves	**210 058**
Retained earnings	**336 325**
Accumulated other comprehensive income	**58 671**
Other reserves	**672 803**
Minority interests	0
Capital Base Deductions	
Adjustments to CET1 due to prudential filters	**(897)**
Intangible assets	**(11 235)**
CET1 capital elements or deductions - other	**(9 979)**
TIER I CAPITAL	**1 349 584**
Subordinated debt	**0**
TIER II CAPITAL*	**0**
OWN FUNDS (CAPITAL BASE)	**1 349 584**

3.2. Disclosure of information about main features of capital instruments

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

Template for disclosing information about the main features of capital instruments([1])		
1	Issuer	United Bulgarian Bank AD
2	Unique identification code (e.g., CUSIP, ISIN or Bloomberg in the case of private investing)	BG1100085056 (Central Depository)
3	Governing law(s) of the instrument	Bulgarian legislation
	Regulatory treatment	Common Equity Tier 1
4	Transitional CRR rules	Tier 1 Capital
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo & (sub)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary, registered, dematerialised, freely transferable shares with voting rights
8	Amount recognised in regulatory capital	93,838,321 BGN
9	Nominal amount of instrument	93,838,321 BGN

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

3.3. Information about own funds

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

BGN Thousand			31 December 2020
Own funds disclosure template			**Regulation (EU) No 575/2013 Article Reference**
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	93 838	26 (1), 27, 28, 29
	of which: Instrument type 1	93 838	EBA list 26 (3)
	of which: Instrument type 2		EBA list 26 (3)
	of which: Instrument type 3		EBA list 26 (3)
2	Retained earnings	336 325	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	941 532	26 (1)
3a	Funds for general banking risk		26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)
5	Minority interests (amount allowed in consolidated CET1)	0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1 371 695**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-10 876	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-11 235	36 (1) (b), 37
9	Empty set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges		33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91
20 c	of which: securitisation positions (negative amount)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20 d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)		48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b)
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences		36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)		36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-22 111**	
29	**Common Equity Tier 1 (CET1) capital**	**1 349 584**	

Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts		51, 52
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86
35	of which: instruments issued by subsidiaries subject to phase-out		486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1 349 584**	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts		62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88
49	of which: instruments issued by subsidiaries subject to phase out		486 (4)
50	Credit risk adjustments		62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	**0**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79
56	Empty set in the EU		
57	**Total regulatory adjustments to Tier 2 (T2) capital**		
58	**Tier 2 (T2) capital**	**0**	
59	**Total capital (TC = T1 + T2)**	**1 349 584**	
60	**Total risk-weighted assets**	**6 119 140**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	22.06%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount	22.06%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount	22.06%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	11.50%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	

66	of which: countercyclical buffer requirement	0.50%	
67	of which: systemic risk buffer requirement	3.00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.06%	CRD 128
69	[non-relevant in EU regulation]		
70	[non-relevant in EU regulation]		
71	[non-relevant in EU regulation]		
Capital ratios and buffers			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions		36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions		36 (1) (i), 45, 48
74	Empty set in the EU		
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	5 450	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)

3.4. Capital Requirements

The Bank fully complies with the Regulation (EU) 575/2013, Directive 2013/36/EU and supervisory requirements of BNB, according to which Tier-I capital and of the Total capital adequacy ratios should be no less than 12.75 % and 14.75 % respectively.

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

Credit risk	86,77%
Market risk	1,49%
Operational risk	11,74%

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

BGN Thousand	31 December 2020
FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES AND CVA	**424 778**
Central governments and central banks	1 847
Regional governments or local authorities	1 413
Public Sector Entities	115
Institutions	31 988
Corporates	163 685
Retail exposures	103 934
Exposures secured by real estate property	66 070
Past due items	28 948
Collective investment undertakings (CIU)	182
Equity	2 126
Other items	24 470
Risk for credit valuation adjustment	0
FOR POSITIONAL, FX AND COMMODITY RISKS	**7 298**
Trading debt instruments	895
Capital instruments	0
FX position	6403
FOR OPERATIONAL RISK	**57 455**
OTHER CAPITAL REQUIREMENTS (capital conservation buffer 2.5%, systemic risk buffer 3%, O-SSI buffer 0. 25%)	**428 340**
GENERAL CAPITAL REQUIREMENTS	**917 871**
Surplus (+) / Deficit (-) of own funds	**431 713**
Total Capital Adequacy Ratio (%)	**22.06%**
Tier-one Capital Adequacy Ratio (%)	**22.06%**

4. Exposure to Counterparty Credit Risk

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

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

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

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

Capital requirements for counterparty risk

BGN Thousand **31 December 2020**

Exposure Class	Repos Deals	Derivatives	TOTAL:
Exposures to institutions	394	529	923
Exposures to companies	0	359	359
Retail exposures	0	0	0
Total:	**394**	**888**	**1 282**

5. Capital Buffers

In accordance wirh Ordinance No.8 on Banks' Capital Buffers, UBB allocates capital for Capital Conseravation and Systemic Risk Buffers. The countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria was set by BNB at 0.5% for the last quarter of 2020.

BGN Thousand **31 December 2020**

Capital Buffers according to Directive 2013/36/EU and Ordinance No. 8/BNB, incl.:	428 340
Capital Conservation Buffer 2.5%	152 979
Systemic Risk Buffer 3%	183 574
Buffer for other systemically important institution 0.25%	61 191
Institution Specific Countercyclical Buffer 0.5%	30 596

The applicable Other Systemically Important Bank capital buffer (O-SIIs) for UBB was set at the level of 1% of the amount of the overall risk exposure throughout 2020.

Since 01.10.2019 UBB distributes 0.5% of its capital base as countercyclical buffer applicable to credit risk exposures towards the Republic of Bulgaria. The buffer was expected to be raised to 1% as of 01.04.2020, and 1.5% by 01.01.2020. In order to mitigate the negative consequences of the global COVID 19 pandemic on the individuals and the business BNB has taken up measures to keep the banking's system stability and strengthen its flexibility. BNB's Management Board, taking into account the radical change in the situation compared to previous year and the national and international dynamics in economy, decided to keep the countercyclical buffer for credit risk exposures towards the Republic of Bulgaria at its current level of 0.5%, last approved on 01.10.2019.

6. Exposure to Credit Risk and Dilution Risk

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

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

In accordance with the International Financial Reporting Standards ("IFRS"), a financial asset (or a group of financial assets) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that a loss event (or events) has an impact on the estimated future cash flows of the financial asset (or group of financial assets), which impact can be reliably estimated. It is not mandatory to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, do not result in impairment of financial assets. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events (reference: International accounting standard 39, Paragraph 59):

(a) Significant financial difficulty of the issuer or obligor;
(b) A breach of contract, such as a default or delinquency in interest or principal payments;
(c) The Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;
(d) It is becoming probable that the borrower will be declared insolvent or resort to other financial reorganization;
(e) The disappearance of an active market for that financial asset because of financial difficulties;
(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

   - Adverse changes in the payment status of borrowers in the group, or
   - National or local economic conditions that correlate with defaults on the assets in the group.

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

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

The Bank supervises the concentration of credit risk on aggregate basis (i.e. with regards to all balance sheet and off-balance sheet exposures). More specifically, the Bank monitors the concentrations of credit risk by industries and by groups of connected borrowers. Regarding the connected parties, the Bank monitors the ratio of the groups' credit exposures to the Bank's regulatory capital, in accordance with the Credit Institutions Act, Regulation 575/2013 and Ordinance №7 of BNB.
The Bank classifies its receivables in accordance with the requirements of Chapter Three of BNB's Ordinance 22 – "Submitting and correcting information in the Central Credit Register" and the Corporate Credit Policy of the Bank. These classifications are reviewed and updated on a monthly basis.

The eligible collaterals and corporate or/and personal guarantees to secure credit risk exposures are well defined. The exposures' management includes regular analyses of the borrowers' creditworthiness and ability to repay the obligations, through which, the borrowers' exposure limits could be changed.

The loan loss allowance is reported as a decrease in the allowance of a specific claim, while for the off-balance sheet items, as for example commitments and bank guarantees, the allowance for imapirment loss is reported under other liabilities. The increase in the allowance for imapirment loss is made through the recognition of the impairment losses in the Bank's income statement.

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

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

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

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

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

BGN Thousand **31 December 2020**

Exposure classes	Average* value of the balance sheet exposures	Balance sheet exposure net of impairment before CRM	Average* value of the off-balance sheet exposures	Off-balance sheet exposure after impairment before credit risk mitigation
Central Governments and Central Banks	4 214 461	4 338 118	4 652	18 608
Regional Governments or Local Authorities	68 146	76 631	12 437	11 345
Public Sector Entities	111	424	835	2 026
Institutions	679 842	980 961	22 226	26 738
Corporates	1 931 205	2 035 707	1 107 783	1 323 457
Retail	1 722 581	1 774 356	476 175	496 881
Exposures Secured by Real Estate Property	1 966 493	2 102 022	123 190	135 462
Exposures in Default	358 721	344 717	3 449	2 936
Exposures in the form of units and shares in CIUs	2 372	2 277	-	-
Equity exposures	24 653	21 354	-	-
Other exposures	484 551	538 831	-	-
Total	**-**	**12 215 398**	**-**	**2 017 453**

* Average on quarterly basis

6.2. Loan portfolio distribution by regions after accounting adjustments and without taking into account the effects of credit risk mitigation

BGN Thousand **31 December 2020**

	Central governments or central banks	Regional governments or local authorities	Public Sector Entities	Institutions	Corporates	of which: SME	Retail	of which: SME	Secured by mortgages on immovable property	of which: SME	Exposures in default	Collective investments undertakings (CIU)	Equity exposures	Other exposures	Total exposures
North and South America	16 032	0	0	18 038	1 031	0	128	0	15	0	50	0	5	0	**35 300**
US	16 032	0	0	13 717	1 031	0	128	0	15	0	0	0	6	0	**30 929**
Asia	0	0	0	8 358	0	0	25	0	48	0	254	0	0	0	**8 685**
Europe	4 340 694	87 976	2 450	979 786	3 358 133	1 788 779	2 271 071	689 005	2 237 421	614 978	347 348	2 277	21 349	538 831	**14 187 335**
BG	3 832 718	87 976	2 450	19 564	3 338 691	1 788 779	2 269 387	1 788 779	2 235 033	1 788 779	343 430	2 277	13 797	538 831	**12 684 154**
FR	120 796	0	0	0	0	0	0	0	0	0	0	0	0	0	**120 796**
ES	39 875	0	0	0	0	0	24	0	0	0	89	0	0	0	**39 987**
LU	0	0	0	102 203	0	0	0	0	0	0	0	0	0	0	**102 203**
BE	0	0	0	847 577	0	0	58	0	0	0	0	0	223	0	**847 857**
RO	101 424	0	0	363	0	0	0	0	49	0	0	0	0	0	**101 837**
PL	217 714	0	0	245	0	0	223	0	295	0	253	0	0	0	**218 730**
Australia and Oceania	0	0	0	1 517	0	0	13	0	0	0	0	0	0	0	**1 530**

Due to representative purposes 4 regions are presented total, of which the 5th largest total exposures by country. The country codes in the first column are as per ISO_3166-1 nomenclature.

6.3. Loan portfolio distribution by industry after accounting adjustments and without taking into account the effects of credit risk mitigation

BGN Thousand **31 December 2020**

	Agriculture , forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defense, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Financial and insurance activities	Households	Other services	Total
Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	2 965 364	0	0	0	1 391 362	0	0	4 356 726
Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	87 976	0	0	0	0	0	0	87 976
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2 450	0	0	0	0	0	2 450
Institutions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1 007 699	0	0	1 007 699
Corporates	191 499	2 069	1 331 500	124 483	89 779	285 152	793 273	99 455	14 771	89 906	73 696	43 651	34 443	0	19 958	17 830	148	145 889	0	1 663	3 359 164
Retail	140 365	1 284	137 709	9 889	4 852	55 259	213 897	55 506	9 041	8 575	7 718	15 565	14 488	0	75	4 643	1 841	875	1 582 233	7 422	2 271 237
Secured by mortgages on immovable property	61 234	1 195	336 865	1 746	4 388	73 418	291 163	52 450	10 910	13 280	14 268	20 921	14 690	0	1 121	11 238	2 297	1 836	1 320 956	3 505	2 237 484
Exposures in default	13 835	4 708	62 706	11 065	2 058	21 985	40 019	4 385	26 065	165	58 981	1 112	1 842	0	0	137	88	0	98 414	88	347 653
Collective investments undertakings (CIU)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2 277	0	0	2 277
Equity exposures	0	0	0	0	0	0	73	0	0	9 950	0	0	0	0	0	0	0	11 331	0	0	21 354
Other exposures	0	0	0	0	0	0	0	0	9 690	0	14	0	0	5 450	0	0	0	523 677	0	0	538 831
Total	406 933	9 256	1 868 780	147 183	101 078	435 814	1 338 425	211 796	70 476	121 876	154 678	81 249	65 463	3 058 790	23 604	33 848	4 374	3 084 946	3 001 604	12 677	14 232 851

6.4. Exposure distribution by residual maturity after accounting adjustments and without taking into account the effects of credit risk mitigation

BGN Thousand **31 December 2020**

Exposure classes	Remaining maturity			TOTAL
	up to 1 year	from 1 to 5 years	over 5 years and without fixed maturity	
Central Governments and Central Banks	-	2 411 293	1 945 433	4 356 726
Regional Governments or Local Authorities	-	17 788	70 187	87 976
Public Sector Entities	-	-	2 450	2 450
Institutions	-	913 924	93 775	1 007 699
Corporates*	6 564	2 346 531	1 006 069	3 359 164
Retail*	51 268	1 123 510	1 096 459	2 271 237
Exposures Secured by Real Estate Property*	700	546 028	1 690 756	2 237 484
Exposures in Default	85 814	66 858	194 980	347 653
Exposures in the form of units and shares in CIUs	-	2 277	-	2 277
Equity exposures	-	21 354	-	21 354
Other exposures	-	538 831	-	538 831
Total	**144 346**	**7 988 394**	**6 100 111**	**14 232 851**

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

7. Disclosure of Encumbered and Unencumbered assets

The encumbered and unencumbered assets of UBB to 31.12.2020 are as follows:

A. Assets

BGN Thousand **31 December 2020**

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**524 760**		**12 267 969**	
Loans on demand	0	0	1 780 748	
Equity instruments	0	0	17 877	17 877
Debt securities	524 760	526 100	2 446 635	2 601 164
Loans and advances other than loans on demand	0		7 463 238	
Other assets	0		559 471	

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

B. Collaterals received:

BGN Thousand		31 December 2020
	Fair value of encumbered collateral received or own debt securities issued	**Fair value of collateral received or own debt securities issued available for encumbrance**
Collateral received by the reporting institution	**582 100**	**0**
Equity instruments	0	0
Debt securities	582 100	0
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABSs	**0**	**0**

Collaterals include government securities received under reverse repos agreements.

C. Encumbered assets/collateral received and associated liabilities:

BGN Thousand		31 December 2020
	Matching liabilities, contingent liabilities or securities lent	**Assets, collateral received and own-debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities	**490 877**	**517 578**

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

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

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

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

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

Ratings of nominated ECAIs are used mainly for exposures to central governments & central banks and exposures to institutions. The largest share as of December 31, 2020 is for the class “Exposures to institutions”. The table below indicates the allocation of exposures to institutions according to the risk weight and the respective credit quality step.

BGN Thousand **31 December 2020**

Exposure Class	Credit quality step	Remaining maturity	Risk weight	Exposure before impairment and credit risk mitigation	Exposure after impairment and credit risk mitigation
Institutions	1	up to 3 months	20%	113 748	113 748
		above 3 months	20%	2 402	596
	2	up to 3 months	20%	358 857	358 818
		above 3 months	50%	506 268	499 883
	3	up to 3 months	20%	14 676	14 676
		above 3 months	50%	1 551	86 531
	4	up to 3 months	50%	74	74
		above 3 months	100%	3 532	3 532
	5	up to 3 months	50%	3 138	3 118
		above 3 months	100%	3 532	3 528
	6	up to 3 months	150%	0	0
		above 3 months	150%	0	0
	Unrated	up to 3 months	20%	0	0
		above 3 months	100%	0	0
Total:				**1 007 777**	**1 084 503**

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

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

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

The Bank applies a maturity-based approach to calculating the general position risk in accordance with Art. 339 of Regulation (EU) 575/2013, by distributing the debt instruments

with fixed interest rate according to their residual maturity, and those with floating interest rate, to the next repricing date.
As of December 31, 2020 the Bank has allocated BGN 785 thousand in capital for general position risk and TBGN 110 are allocated for specific risk. The distribution by risk weight and currency is as follows:

A. Capital requirements for position risks according to risk weights

BGN Thousand **31 December 2020**

	BGN		EUR		USD		GBP		Risk weights	Exposures subject to capital requirements	Capital requirements
	Long	Short	Long	Short	Long	Short	Long	Short			
General position risk. Maturity based approach											
0 ≤ 1 month	668	0	56 724	57 215	49 319	49 310	0	5 247	0.00%	0	
> 1 ≤ 3 months	0	0	34 361	34 344	32 874	32 859	0	0	0.20%	0	
> 3 ≤ 6 months	4 812	0	7 969	8 030	7 730	7 730	19	0	0.40%	19	
> 6 ≤ 12 months	0	0	6497	47462	43353	3506	568	0	0.70%	568	
> 1 ≤ 2 (1,9 with coupon below 3%) years	3 862	0	0	0	0	0	48	0	1.25%	48	
> 2 ≤ 3 (> 1,9 ≤ 2,8 with coupon below 3%) years	1 120	0	0	0	0	0	20	0	1.75%	20	
> 3 ≤ 4 (> 2,8 ≤ 3,6 with coupon below 3%) years	2 200	0	0	0	0	0	50	0	2.25%	50	
> 4 ≤ 5 (> 3,6 ≤ 4,3 with coupon below 3%) years	500	0	6 878	0	0	0	0	0	2.75%	203	
> 5 ≤ 7 (> 4,3 ≤ 5,7 with coupon below 3%) years	0	0	0	0	0	0	0	0	3.25%	0	
> 7 ≤ 10 (> 5,7 ≤ 7,3 with coupon below 3%) years	673	0	0	0	0	0	0	0	3.75%	25	
> 10 ≤ 15 (> 7,3 ≤ 9,3 with coupon below 3%) years	0	0	10	0	0	0	0	0	4.50%	0	
> 15 ≤ 20 (> 9,3 ≤ 10,6 with coupon below 3%) years	0	0	0	0	0	0	0	0	5.25%	0	
Total	**13 835**	**0**	**112 439**	**147 051**	**133 276**	**93 405**	**5 247**	**5 247**		**933**	**785**
Specific position risk											
Debt instr. I category (0% cap. requirements)	***13 087***		***0***		***0***		***0***		***0.00%***	***0***	
Debt instr. II category	***0***		***6 888***		***0***		***0***		***0.00%***	***0***	
with remaining maturity ≤ 6 months	0		0		0		0		0.25%	*0*	
with remaining maturity > 6 months and ≤ 24 months	0		0		0		0		1.00%	*0*	
with remaining maturity > 24 months	0		6 888		0		0		1.60%	*110*	
Debt instr. III category (8% cap. requirements)	***0***		***0***		***0***		***0***		***8.00%***	***0***	
Debt instr. IV category (12% cap. requirements)	***0***		***0***		***0***		***0***		***12.00%***	***0***	
Total	**13 087**		**13 776**		**0**	**0**	**0**	**0**		**110**	**110**

B. Capital requirements for position risk by currency

BGN Thousand **31 December 2020**

	General position risk	Specific risk	TOTAL
BGN	176	0	176
EUR	298	110	408
USD	290	0	290
RUB	21	0	21
GBP	0	0	0
TOTAL:	**785**	**110**	**895**

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

10. Capital requirements for Foreign Exchange Risk

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

BGN Thousand **31 December 2020**

	All positions		Net positions		Capital requirements*
	Long	Short	Long	Short	
Total positions in closely correlated currencies (BGN and EUR)	**14 163 338**	**14 200 678**	**85 359**	**122 700**	**3 414**
Total positions in all other currencies	**930 892**	**930 466**	**448**	**21**	**2989**
Currency positions					
EUR	5 966 886	5 881 544	85 342	0	
AUD	1641	1640	1	0	
BGN	8 171 480	8 294 167	0	122 687	
CAD	5 022	5 027	0	5	
DKK	725	718	7	0	
GBP	99 688	99 681	7	0	
JPY	892	896	0	4	
RON	674	681	0	7	
RUB	3221	3224	0	3	
SEK	439	445	0	6	
CHF	23 133	23 123	10	0	
TRY	500	509	0	9	
USD	817 945	817 507	438	0	
NOK	1 984	1 982	2	0	

* when Net positions exceed 2% of Total Own Funds

In accordance with Standardized Approach the bank calculates 4% capital requirements on matched closely correlated position and 8% on open currency position.

The Bank has no commodity and settlement risk exposures.

11. Internal Models for Market Risk

As of December 31, 2020, UBB does not apply internal models approach for the calculation of capital requirements for market risk.

UBB uses a Value at Risk ("VaR") model for market risk assessment, on the basis of which it has established a framework of limits to manage FX risk, interest rate risk and equity risk.
Following the leading trends in the banking sector, in November 2018 UBB started using historic VaR (hVaR) instead of parametric VaR (pVaR). This approach uses the actual historical market performance to simulate possible future market evolutions.

hVaR is defined as the highest potential loss amount:
- Minute risk factor shocks
- Market shifts during a certain holding period
- At a given trust interval
- In relation to the expected amount of said shocks
- For a fixed amount of the portfolio

Past moves in market parameters are transformed into scenarios that are applied to the current market situation and a given portfolio. UBB has adopted the approach of the Group and uses a data window of 500 scenario days. The calculations are performed by the Group. The confidence level is 99%, which corresponds to the 5-th worst scenario. That means there is a 1% chance that the loss is greater than calculated in the scenario.
hVaR is calculated daily at Group level and at local company level. Limit breaches are reported to the Local Credit Risk Committee.

The 1-day hVaR limit in the Risk Appetite Statement valid as of 31.12.2020 is BGN 0.587 million. The actual VaR as at 31.12.2020 is BGN 0.0338 million. Besides VaR, UBB monitors BPV limits per currency for BGN, EUR, USD and GBP for the bonds in the trading book. The limits for 2021 by nominal currency are as follows:

Maturity BPV limits by currency/time span

	7D	1M	2M	3M	4M	5M	6M	7M	8M	9M	10M	11M
BGN	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000
EUR	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000
USD	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000
GBP	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000
Other	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*

	1Y	1Y6M	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y
BGN	20 000	20 000	50 000	50 000	50 000	65 000	65 000	65 000	50 000	50 000	50 000
EUR	10 000	10 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000
USD	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000
GBP	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000
Other	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*	*1 500*

	11Y	12Y	15Y	20Y	25Y	30Y	40Y	50Y
BGN	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
EUR	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
USD	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
GBP	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
Other	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500

Maturity limit is abolished as of 2020. BPV (Basis Point Value) limits remain in force.

31 December 2020

Currency	Used amount
BGN	23 689
EUR	29 457
USD	0.587
GBP	0

12. Operational Risk

Operational Risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes all non-financial risks except compliance risk (incl. conduct risk), business risk, strategic risk and reputational 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 as well as specific risks identified by the owner of the process. 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 the Bank. The initial assessment of the GKCs in UBB was done in 2017 and since then it is performed on a regular basis as per group requirements. The assessment of the GKCs is registered in the KBC tool BWise.

A building block of the framework is the registration and analysis of operational risk losses and events (near misses). The procedure that regulates the process of collection and registration of operational risk losses and events in UBB follows the KBC Loss Data Collection Process Procedure. The operational risk losses and events are registered in the KBC tool GLORY. The registered events are analyzed and reported to LRMC as corrective measures to avoid future losses are proposed.

Local Operational Risk Managers (LORMs), who are part of the 1LoD business units of the Bank, are appointed for all processes in UBB and trained regularly by the 2LoD (Non-financial Risks Department).

Business Continuity Management (BCM) is performed in accordance with the KBC Group standards, BCM Framework and GKC BCM.

BCM ensures the continuity of delivering vital services or products to customers in the event of a serious disruption, crisis or disaster. BCM focuses on availability, i.e. the Recovery Time Objective (RTO) or the amount of time in which business activities need to be operational again following a serious disruption, crisis or disaster. Together with RPO, RCapO as a third metric in DRP process is included in BIA and is used to establish and communicate a recovery objective that represents the capacity of a recovered system.

BCM is coordinated by local risk function as the business units are responsible for BCM framework implementation. Business Impact Analyses (BIAs) are prepared for all processes in the Bank as for each process 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 prepare the Business Continuity Plan (BCP) for crisis situations as well as to coordinate the BCP testing. The BC coordinators also review and update the respective BIAs, BCPs and phone trees at least once a year.

The Bank applies the standardized approach for calculating the capital requirements for operational risk, which amounted to BGN 718 188 thousand in as of December 31, 2020.

13. Capital Instruments in the Banking Book

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

The Bank's equity participations were as follows as of December 31, 2020:

BGN Thousand **31 December 2020**

Capital instruments in the banking book	Balance sheet value	Unrealized profit/loss
Units in mutual funds	2 277	-178
Shares	17 877	6783
Shares in subsidiaries and associated companies	20 733	0
Total	**40 887**	**6 605**

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

14. Interest Rate Risk in the Banking Book

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

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

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

On a quarterly basis, the Bank calculates sensitivity of net interest income by the interest rate GAP method. Interest sensitive assets and liabilities are grouped according to the period of change of their interest rate regime, after which the change in interest income and expenses is calculated (depending on the scenarios: +/- 100 b.p., +/- 200 b.p. and baseline scenario/no movement applied to the yield curve).

15. Securitisation

There has been no securitization of the Bank's assets in 2020.

16. Internal Ratings Based Approach

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

As of December 2020, the Bank has not applied for permission to use the corporate rating model for calculation of the capital requirements as per Regulation (EU) No 575/2013. In accordance with Basel III, the banks are allowed to use their internal models for capital requirements calculation after approval by the regulatory authorities.

17. Techniques for Credit Risk Mitigation

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

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

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

1. Legal substance – existence of the proper legal and other documentation, proving the ownership right and the fulfilment of the special requirements of the law;
2. Clear identification – the collateral, as supported by its documentation, to be clearly identifiable;

3. Exclusivity of collateral rights – the Bank to be the undisputable holder/bearer of the specific collateral rights;
4. Sufficiency – Sufficient in terms of amounts, ideally exceeding the respective credit exposure in order to cover possible reduction in their realization price, the expenses and time needed for their realization;
5. Liquidity – the collaterals must be possible to be liquidated within a reasonable time in the current market conditions.

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

1. Pledge of deposits ("born receivables under deposit" as per the legal term) with UBB and other banks;
2. Transfer agreement of born receivables (special deposits kept in the Bank's name provided as collateral by the collateral provider) under the Law on Financial Collateral Arrangements;
3. Pledge of receivables under direct, unconditional, irrevocable and full guarantee, issued by first-class local or foreign financial institutions, government and municipalities;
4. Pledge of Multinational bank bonds - investment grade only;
5. Pledge of local government bonds and other local governmental debt titles;
6. Pledge of municipalities bonds;
7. Mortgage on real estate properties and real estate related rights with a recognized market value;
8. Pledge of movable tangible assets – machines, vehicles, equipment, aircrafts, etc.;
9. Pledge of living stock that is fully insured against all risks, the insurance policy is assigned in favor of the Bank and the Bank is referred as loss payee;
10. Marine mortgage;
11. Pledge of non-sensitive goods based on public licensed warehouses titles;
12. Pledge of shares of companies /investment grade only/ and traded in SE /stock exchanges/;
13. Pledge of corporate bonds /investment grade only/ and traded in stock exchanges;
14. Pledge of shipping documents /only sea and railway transport/;
15. Pledge of trade receivables under a contract, from counterparties/payers;
16. Pledge of subsidies and grants by governmental or EU entities, provided that the Bank is in a position to check and has verified in advance that all preconditions set by the same entities for the disbursement of the subsidy or grant have been fully met.

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

Total credit exposure, net of provisions and risk mitigations (eligible as per Regulation 575/2013), and adjusting off-balance sheet positions by risk conversion factors, was as follows at December 31, 2020:

BGN Thousand		31 December 2020
Exposure Class	**Balance sheet Items**	**Off-balance sheet Items**
Central governments and central banks	4 338 118	3 995
Regional governments or local authorities	76 631	5 672
Public Sector Entities	19 951	5 045
Multilateral development banks	368 742	-
Institutions	1 064 989	19 514
Corporates	1 731 840	571 756
Retail exposures	1 594 903	230 549
Exposures Secured by Real Estate Property	2 102 022	72 430
Exposures in Default	334 027	1 945
Exposures in the form of units and shares in CIUs	2 277	-
Equity exposures	21 354	-
Other exposures	560 544	19 845
Total	**12 215 398**	**930 751**

18. Leverage

The Bank calculates its leverage ratio in accordance with Article 429 of Regulation 575/2013. It gets the measure capital divided the measure of total exposure of the Bank and expressed as a percentage. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not deducted when determining the capital measure.

As of the end of the year 2020, the Bank has sustained a leverage ratio of 9.83% (fully phased-in definition) against a preliminary EBA target level of 3.0%.

BGN Thousand		31 December 2020
LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		**Applicable Amount**
1	Total assets as per published financial statements	12 792 729

2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	15 937
5	Adjustments for securities financing transactions "SFTs"	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	949 738
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-33 329
8	**Total leverage ratio exposure**	**13 725 075**

LR Com: Leverage ratio common disclosure

BGN Thousands **31 December 2020**

	On-balance sheet exposures (excluding derivatives and SFTs)	**CRR leverage ratio exposures**
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	12 200 089
2	(Asset amounts deducted in determining Tier 1 capital)	-33 329
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	12 166 760
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e net of eligible cash variation margin)	5 932
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	15 937
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures (sum of lines 4 to 10)**	**21 869**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	586 708
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-	(Exempted CCP leg of client-cleared SFT exposure)	0

15a		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**586 708**
	Off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	1 680 490
18	(Adjustments for conversion to credit equivalent amounts)	-730 752
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**949 738**
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Capital and Total Exposures	
20	**Tier 1 capital**	**1 349 584**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**13 725 075**

	Leverage Ratio	
22	**Leverage ratio**	**9.83%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased-in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	0

BGN Thousand **31 December 2020**

LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)		**CRR leverage ratio exposures**
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	12 188 871
EU-2	Trading book exposures	19 975
EU-3	Banking book exposures, of which:	12 168 896
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	4 338 118
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	77 055
EU-7	Institutions	938 951
EU-8	Secured by mortgages of immovable properties	2 102 022
EU-9	Retail exposures	1 774 356
EU-10	Corporate	2 031 215
EU-11	Exposures in default	344 717
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	562 462

19. Staff Remuneration Policy and Practices according to art. 2 of Ordinance №4 of BNB

The Remuneration Policy of UBB is based on KBC Group Remuneration Policy and is in compliance with BNB Ordinance No 4 on the requirements for remuneration in banks. The Remuneration Policy of UBB is fully compatible with the Bank stakeholders' interests, KBC Corporate Sustainability strategy and KBC Compliance Rules.

The Remuneration Policy covers all forms of remuneration, including salaries and other financial and material benefits for all the staff members and defines some specific remuneration guidelines for Key Identified Staff (KIS).

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

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

Remuneration schemes can consist of different components, which are categorized as either fixed or variable. The fixed remuneration depends on the relevant professional experience and organizational responsibilities as set out in an employee's job description or management and employment contract. The variable remuneration depends on sustainable, effective and risk adjusted performance, as well as performance beyond the job description.

The different remuneration components used within UBB, cover all forms of remuneration, including salaries, other financial and material benefits, discretionary pension benefits and components.

The ratio between fixed and variable remuneration may be no more than 1 to 0.5.

Variable remuneration is a set of monetary bonuses, premiums and performance incentives (monetary part of the variable remuneration) and other equivalent non-cash instruments (non-monetary part of the variable remuneration).

Variable remuneration should not induce risk-taking in excess of the risk appetite of the Bank and should be based on risk- and liquidity-adjusted profit, not on gross revenues.

As a risk gateway for paying out variable remuneration for all categories of the staff including the Key Identified staff are set capital and liquidity parameters. If one of the parameters is not met - no variable remuneration will be paid for the performance year and "non-vested" deferred amounts will not vest in the respective year and will be lost. If the risk gateway is passed, the level of the variable remuneration paid still could depend on other variable remuneration guidelines and processes in force.

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

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

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

- Second group KIS - Employees whose activities have a high impact on the banks risk profile.
- Third group KIS - Employees performing controlling functions.

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

The variable remuneration for the first group KIS is based upon different components with the following weights:

Position level	KBC Group Result (1)	Evaluation of short term objectives	
		Individual objectives	Sustainable objectives
Senior General Manager	20%	70%	10%
General Manager	10%	80%	10%

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

For all employees in Second and Third group the variable monetary remuneration shall be based on the results of the core business of the Bank, the structural unit and their individual performance. 50% of the variable monetary remuneration of the employees identified as KIS in Second and Third group, for which the amount of the variable remuneration exceeds EUR 30 000 (exchange rate of 1.9558 to be used) shall be deferred for a period of 3 (three) years – in the first year 15% of the bonus is paid, in the second year – 15% of the bonus; in the third year the last 20% of the bonus is paid.

The purpose of the deferred payment of bonuses is to promote the achievement of sustainable and long-term results, and discourage risk-taking beyond the acceptable level for the given position.

Summary information on the remunerations in the Bank in 2020, detailed per activity type.

Type of activity	Remunerations - %
Investment banking	1.8
Credit activity	21.5
Asset management	0.0
Corporate functions	11.5
Independent control functions	3.4
Other	61.8
Total	**100.0**

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

Staff category	Number of persons	Remunerations- % of the total paid remunerations in the Bank	Of these fixed- % of the total amount of the remunerations in the Bank	Of these variable - % of the total amount of the remunerations in the Bank
1. Persons under Art.2, Item 1 of Ordinance 4 of the BNB	8	3.8	2.9	0.9
2. Persons under Art.2, Item 2 of Ordinance 4 of the BNB	8	1.5	1.2	0.3

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