

UNITED BULGARIAN BANK AD  
**ANNUAL REPORT 2021**



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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

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#### 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 2021, 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 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 2021, and Bank's separate and Group's consolidated financial performance and Bank's separate and Group's consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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#### 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the separate and consolidated financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.



## Our audit approach

### Overview



- Overall Bank and Group materiality: BGN 9,511 thousand, which represents 5% of the separate and consolidated profit before tax.
- We conducted an audit of the Bank and audited specific balances of the only material subsidiary in Bulgaria.
- Our audit scope addressed 99.9% of the Group's assets and 99.5% 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. As in all of our audits, 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.

<b>Overall Bank and Group materiality</b>	BGN 9,511 thousand
<b>How we determined it</b>	5% of the separate and consolidated profit before tax
<b>Rationale for the materiality benchmark applied</b>	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.

## 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
<p data-bbox="272 640 847 763"><b>Estimation uncertainty with respect to the impairment allowance for loans and advances to customers (Note 13 "Loans and advances to customers" and Note 35 "Credit risk")</b></p> <p data-bbox="272 808 847 1352">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 2021, the gross loans and advances to customers amounted to BGN 7,283 million on a separate basis and BGN 7,369 million on a consolidated basis and the related impairment allowance at that date amounted to BGN 191 million on a separate basis and BGN 194 million on a consolidated basis.</p> <p data-bbox="272 1375 847 1675">The assessment of significant increase in credit risk and 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.</p> <p data-bbox="272 1697 847 1845">The use of different modeling techniques, management overlays, scenarios and assumptions could affect the impairment allowance for loans and advances to customers.</p>	<p data-bbox="847 640 1442 940">Our audit procedures included an assessment of the overall governance of the credit, impairment and model validation processes of the Bank and the Group, including 12-month and lifetime expected loss modelling and individual impairment processes. We have also assessed the appropriateness of the impairment models and internal methodology of the Bank and the Group and their compliance with IFRS 9.</p> <p data-bbox="847 963 1442 1048">We have assessed and tested the design and operating effectiveness of the controls within the lending and provisioning processes.</p> <p data-bbox="847 1070 1442 1370">For loan impairment allowance determined on an individual basis, we have performed, for a sample of credit exposures, a detailed examination of loans granted by the Bank and the Group. We challenged the default and significant increase in credit risk identification triggers and quantification of expected future cash-flows (recoverable amounts) determined based on valuation of underlying collateral and estimates of recovery on default.</p> <p data-bbox="847 1393 1442 1603">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.</p> <p data-bbox="847 1626 1442 1711">Supported by our modeling experts, we have performed an independent recalculation of the expected credit loss for a sample of loans.</p> <p data-bbox="847 1733 1442 1904">We performed an assessment of the adequacy of the Bank's and the Group's assumptions and judgements related to the impact of the COVID-19 pandemic, the assessment of expected credit losses and the process of their determination.</p>



In 2021 the COVID-19 pandemic continued to bear uncertainty about the economic outlook and, together with various government measures, has increased the complexity of assessing and monitoring the affected by the pandemic customers' financial condition, which required an increased level of judgment in the determining of the likelihood of credit risk deterioration or default and the associated expected credit losses.

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.

We also assessed the completeness and accuracy of the disclosures in the area of impairment allowance for loans and advances to customers and whether the disclosures are in compliance with the IFRS, as adopted by the European Union.

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#### **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.

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#### **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 does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

### **Additional matters to be reported under the Accountancy Act**

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual 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 for the financial year for which the separate and consolidated financial statements are 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 are 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 are prepared, presents the information required by Chapter Seven of the Accountancy Act.

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### **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.



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## 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 separate and 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, actions taken to eliminate threats or safeguards applied.



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**

#### **Additional reporting in relation to Ordinance 58/2018 issued by the Financial Supervision Commission ("FSC")**

**Statement in relation to 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 monetary 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 financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts is in accordance with the requirements of Art. 3-10 of Ordinance 58 of the FSC and Art 92-95 of Markets in Financial Instruments Act in relation to the activities of the Bank in its capacity as an investment intermediary.

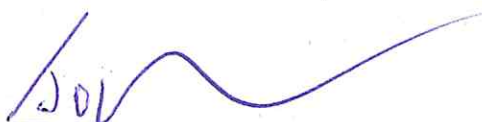
#### **Additional reporting on the audit of the separate and consolidated financial statements in connection with art. 10 of Regulation (EU) 537/2014 in connection with the requirements of art. 59 of the Independent Financial Audit Act**


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 2021 by the general meeting of shareholders held on 17 December 2021 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 2021 by the general meeting of shareholders held on 17 December 2021 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 2021 represents the fifth of total uninterrupted statutory audit engagements for that entities carried out by PricewaterhouseCoopers Audit OOD and Grant Thornton OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report dated 8 April 2022, 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 136 thousand which have not been separately disclosed in the separate and consolidated financial statements of the Bank and the Group:
  - o Audit of the consolidated group reporting forms, prepared by the Bank in accordance with KBC Group accounting manual for the year ended 31 December 2021;
  - o 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 2021 (jointly with Grant Thornton OOD);
  - o Agreed-upon Procedures Report in connection with the calculation of the 2022 ex-ante contributions of the Bank to the Single Resolution Fund.
- 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 service in the total amount of BGN 6 thousand which has not been separately disclosed in the separate and consolidated financial statements of the Bank and the Group:
  - o 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 2021 (jointly with PricewaterhouseCoopers Audit OOD).

For PricewaterhouseCoopers Audit OOD:

  
\_\_\_\_\_  
Jock Nunan  
Procurist

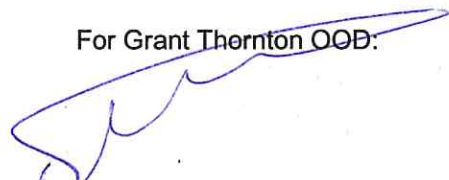
  
\_\_\_\_\_  
Pavel Pirinski  
Registered auditor responsible for the audit


9-11, Maria Luiza blvd.  
1000 Sofia, Bulgaria

8 April 2022



For Grant Thornton OOD:

  
\_\_\_\_\_  
Mariy Apostolov  
Managing partner

  
\_\_\_\_\_  
Gergana Mihaylova  
Registered auditor responsible for the audit

26, Cherni vruch blvd.,  
1421 Sofia, Bulgaria

8 April 2022





**ANNUAL SEPARATE AND CONSOLIDATED ACTIVITY REPORT  
OF UNITED BULGARIAN BANK AD (UBB)**

**As of 31.12.2021**

**(In accordance with the Accountancy Act)**

**1. REVIEW AND DESCRIPTION OF THE ACTIVITY**

**1.1. Development and operating results of the entity**

As at 31 December 2021 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. The total capital is paid in UBB offers a wide range of bank services within the license for conducting banking activities granted by the Bulgarian National Bank to domestic and foreign clients through the Headquarters Office in Sofia and 168 branches, 16 business centers and 26 remote work places across the country all serviced by 2,555 employees (2020: 2,665) 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 6, 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 2021 the Bank is a sole owner of UBB Factoring EOOD, UBB Insurance Broker EAD, UBB Centre Management EOOD and East Golf Properties EOOD. 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.

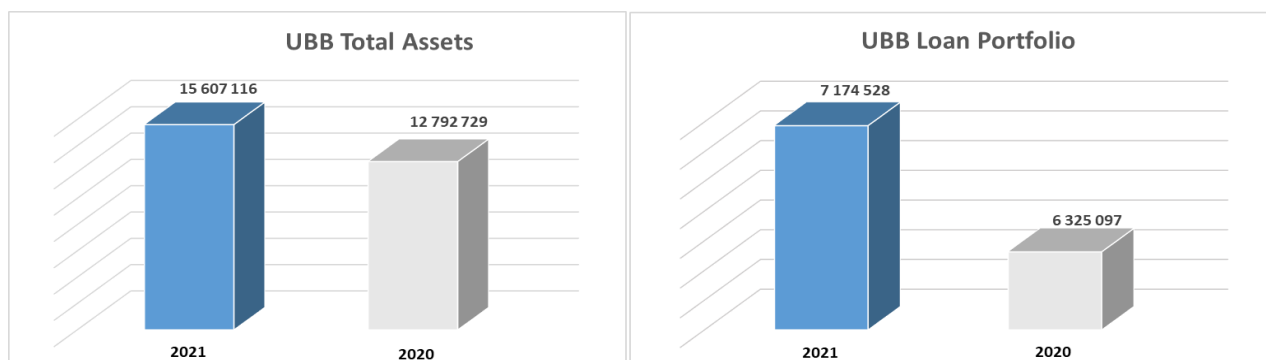
The Bank has a two-tier management system – Management Board and Supervisory Board. All of the Management Board members are Executive Directors of UBB. Mrs. Hristina Filipova is Procurator of UBB.

## 1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

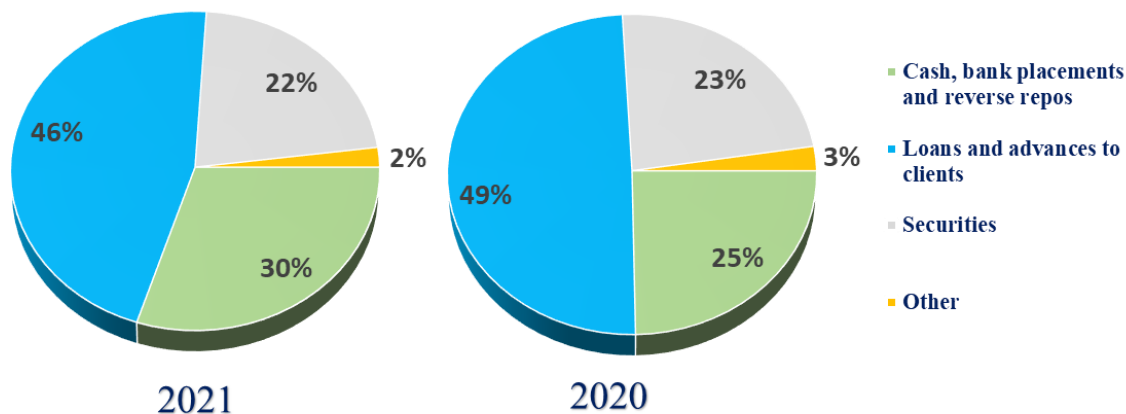
During the 2021 the Bank and its subsidiaries (hereinafter UBB or the Group) managed to achieve a significant increase of its assets, strengthening its positions as one of the most dynamically growing bank groups in the Bulgarian market. In 2021 the Group's total assets grew by more than 22% compared to the end of 2020 reaching BGN 15 607 million (2020: BGN 12 793 million). The net book value of loans and advances to customers increased by 13.4% (or BGN 849.4 millions) driven primarily by the significant volume of new business.

In thousand bulgarian levs



Asset structure indicates that Loan and advances to customers prevail, while the total amount of financial assets representing mainly debt instruments at amortized costs increase by impressive 14% (BGN 411 million). The latter is a result of the acquisition of mainly Bulgarian Government Debt securities throughout the year.

### UBB Asset Structure



At 31 December 2021 the UBB's total liabilities on a consolidation base amounted to BGN 13 973 million (2020: BGN 11 315 million). The 23% growth compared to the previous year is mainly contributed by an increase of customer's deposits by 15% and also higher deposit from banks related to liquidity management purposes.

The 2021 net profit of UBB amounted to BGN 171.9 million on consolidation base. The increase compared to previous year (BGN 66 million) is supported mainly by favourable Total income, benefits from increased efficiency realised through lower operational expenses and release of impairments in relation to improved economic expectations about future credit loss caused by COVID-19 economic impact.



## **1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)**

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

Although the robust loan portfolio growth, Net interest income decreased on annual basis by 2.6% (or BGN 6.7 million), driven by the steady pressure on interest rates on loans and heavy cost of the substantial inflow of funds from customers. The net fee and commissions income significantly increased by 17.1% (or BGN 20.6 million) for UBB, supported by the recovery of the Payment business in 2021 when our clients shifted to the convenience of non-cash payments, thus affecting the income from bank card transactions and the payments business in general. Additionally, the strong loan portfolio growth contributed favourably to the fee income on top of the rapidly increasing revenue from our fast developing asset management business.

We aspire to improve our operational efficiency through ongoing execution of our digital transformation roadmap and continuing optimization of Branch Network. These efforts helped us reduce the operating expenses in 2021 by 3.2% (or BGN 7.2 million) for UBB Group compared to 2020.

### **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 227% Liquidity Coverage Ratio (LCR). Also during the year UBB maintained values of the NSFR well above the minimum required levels by European Regulators of 100%.

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 2021**

In the light of COVID-19 pandemic the expectations are for preserving the stability of the financial parameters and maintaining 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 (up to 25% vs. 5%), increase of corporate outflow (up to 45% vs. 25%), usage of undrawn credit lines by 10% for retail clients and 20% for corporate clients above regulatory run-off factors and 20% haircut of market value of liquid securities.

The COVID-19 stress test developed at Group level was also performed in which there is a significant increase in outflows and a decrease in inflows by calculating the LCR. Although the COVID-19 pandemic put a serious stress on the market, so far it has not affected UBB's liquidity and funding adequacy. Our stress tests currently indicate that UBB can withstand such adverse evolutions.

The new stress test scenario was implemented in 2021 in which 100% outflow of attracted funds from top 10 depositors is assumed.

#### **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 individual level at 31 December 2021 as per accounting data amounts to BGN 1 634 733 thousand (2020: BGN 1 478 786 thousand) and as per the requirements of Basel III it amounts to BGN 1 437 390 thousand (2020: BGN 1 348 556 thousand).

The Group has sufficient equity to ensure adequate equity coverage for its risk assets.

## 1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

### 1.3. Capital resources (continued)

The Group's equity at 31 December 2021 as per accounting data amounts to BGN 1 634 402 thousand (2020: BGN 1 477 629 thousand) and as per the requirements of Basel III it amounts to BGN 1 435 598 thousand (2020: BGN 1 349 584 thousand).

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

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

Ratio	Separate		Consolidated	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Total capital adequacy ratio (%)	21.24%	22.09%	20.91%	22.06%
Tier-I capital adequacy ratio (%)	21.24%	22.09%	20.91%	22.06%

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

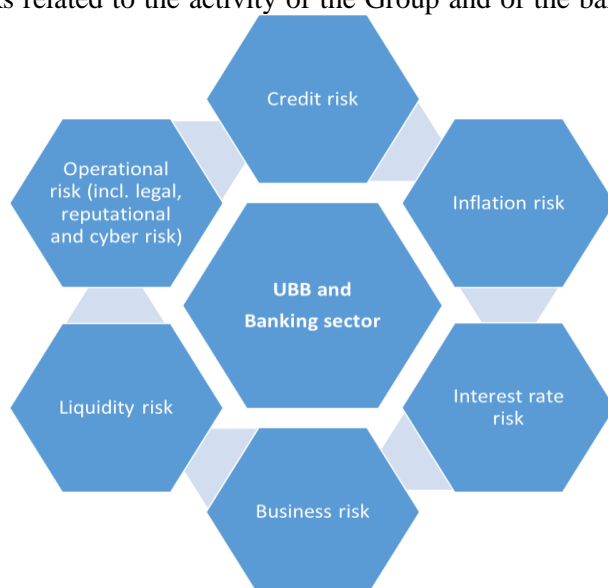
The effects of weaker-than-expected economic growth in the euro area expectations of a long period of low interest rates in the euro area and Bulgaria as well as the ever-increasing competition in the banking sector especially in the area of lending are the main factors influencing the prospects for 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:





## **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)**

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

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

Regarding the price (interest) risk the bank aims at maintaining a balance between the fixed-interest-rate assets and liabilities and the floating-interest-rate ones. The bank also uses derivative financial instruments to hedge the interest rate risk.

The credit risk is managed by applying strict and conservative principles for securing loans and measuring collateral.

### **1.4. Strategic development of UBB**

In 2021, despite the ongoing crisis of COVID-19, in support of its customers UBB confidently continued to develop its long-term strategy for creating and developing innovative and digital banking products and services, in line with the expectations and daily needs of customers and accessible at any time and through all distribution channels with special emphasis on digital. The goal of UBB, is to develop products to offer through all its sales channels, as the main focus continues to be to enrich mobile banking with new functionalities, modern design and services for the benefit of its customers. At the beginning of the year, an opportunity was provided to apply for and disburse a fully digital consumer loan, and at the middle of the year a similar process was proposed for investment products without advice targeting the mass consumers, namely the purchase of a Systematic Investment Plan.

Central to the bank's strategy in terms of target segments are adolescents and young people in order to build long-term relationships. And in this direction, after offering a payment package for young people (18-25 years) UBB expanded its offer for the segment and created an opportunity for adolescents aged 14-18, with the permission of their parents, to apply and start using their first bank account. UBB continued to be a preferred partner for customers from the following sub-segments - retail (mass-rich and wealthy customers, Premium customers), small and medium-sized enterprises and medium-sized and large corporate customers, in order to balance growth and profitability. In response to customer needs, a special program of products and services aimed at the Premium segment was kept managed by Retail customers with a separate service model and special meeting places for customers' in the segment.

As oriented to the needs and subordinated to the dynamics of the real life of its clients, the bank not only confirms its position of first choice for banking and insurance partners, but also upgrades its digital channels - mobile banking, website, enabling and providing access to all services to every bank's customer in the environment in which we lived in 2021.

In addition, the customer contact center was further actively expanding the scope of its activities, supplementing it with sales programs and initiatives for reporting customer satisfaction and programs aimed at building long-term relationships with our customers.

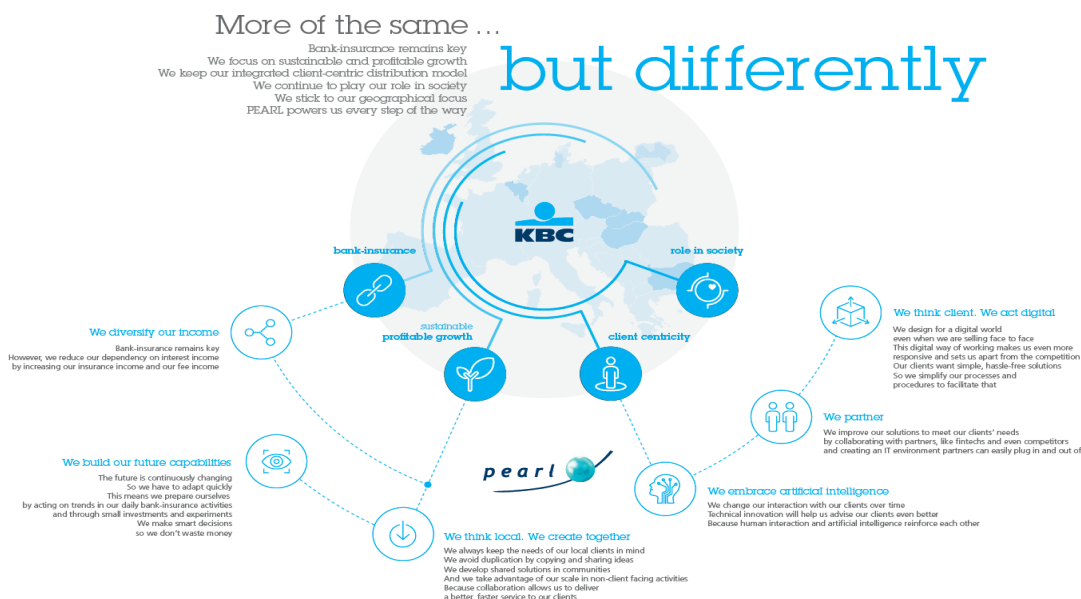
We encourage our employees to behave responsibly and to be customer and results oriented. In addition, we strive to build sustainable relationships with our customers - individuals, small and medium enterprises and large corporate companies in Bulgaria. We achieve this by constantly listening to their feedback through direct communication with them, as well as through surveys, surveys and consultations.

## 1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

### 1.4. Strategic development of UBB (continued)

We respond to their identified needs not only by creating and improving the product portfolio, but also by establishing a wide variety of distribution channels.

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



Last but not least, we focus our efforts on the sustainable development of the various communities in which and with which we work, because we believe that through unadulterated attitude and care for them, we become a real and responsible part of our community development and the lives of our clients.

### 1.5. Expected financial results

UBB's financial result is formed mainly of interest income, fees and commissions. A steady growth in lending and customer attractive funds is expected during the financial year of 2022 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 and Bulgarian programs. The level of non-performing loans will be closely monitored while it is expected that impairment expenses will depend on the post-COVID-19 recovery of the economic activity. Additionally, Ukraine-Russia crisis might have significant impact on the overall macro and political situation in the region. The over-liquidity and very competitive 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 2021 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:

- **Peter Andronov – Chairman of the Supervisory Board**

- He does not participate in commercial companies as a general partner;
- 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;
- Legal entities, besides UBB AD, in whose management or control bodies he participates:

KBC Group NV	Member of the Executive Committee
KBC Bank NV	Member of the Board of Directors; Executive director
KBC Insurance NV	Member of the Board of Directors; Executive director
KBC Asset Management NV	Chairman of the Board of Directors; Non-executive director
K&H Bank Zrt.	Chairman of the Board of Directors; Non-executive director
K&H Insurance Zrt.	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
CSOB Banka Slovakia	Chairman of the Supervisory Board
KBC Insurance NV Irish Branch	Chairman of the Supervisory Body
KBC Global Services NV	Member of the Management Board

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

- She does not participate in commercial companies as a general partner;
- 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;
- 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., Czech Republic	Member of the Supervisory Board
KBC Bank NV, Dublin Branch	Member of the Supervisory Board

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

- He does not participate in commercial companies as a general partner;
- 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;
- Legal entities besides UBB AD in whose management or control bodies he participates:



**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)**

CERA CV	Member of the Board of Directors and Executive Director
CBC BANQUE SA	Member of the Board of Directors, Non-executive director
KBC ANCORA NV	Member of the Board of Directors and Executive Director
KBC GLOBAL SERVICES NV	Member of the Supervisory, Non-executive director
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, Non-executive director
KBC Bank NV	Member of the Board of Directors, Non-executive director
KBC Group NV	Member of the Board of Directors, Non-executive director
KBC Verzekeringen NV	Member of the Board of Directors, Non-executive director
Euro Pool System International BV	Member of the Board of Directors, Non-executive director
BRS Microfinance Coop cv	Member of the Board of Directors, Non-executive director
International Raiffeisen Union e.V.	Chairman of the Board of Directors, Non-executive director

• **Barak Chizi – Member of the Supervisory Board**

- a) He does not participate in commercial companies as a general partner;  
 b) He holds directly or indirectly at least 25% of the votes in the general meeting of the following legal entities:

Chizi Technologic Consulting Ltd., Israel	Holds 60 % of the equity of the company
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- c) He does not participate in management or control bodies in legal entities besides UBB AD.

• **Svetoslav Gavriiski – Independent 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:

Pension Insurance Company Allianz Bulgaria AD	Member of the Supervisory Board
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## 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)

- **Victor Yotzov – Independent 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:

Fund for Sustainable Urban Development EOOD	Chairperson of the Management Board
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### 1.7. Management Board of UBB AD

- **Peter Roebben – 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) he does not participate in management or control bodies of other legal entities different from UBB AD.

- **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

Mrs. Desislava Simeonova is a member of the Management Board of the Association of Banks in Bulgaria which is a non-profit association.

- **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) There are no legal entities besides UBB AD in whose management or control bodies she participates.

- **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:
  - Belgium-Bulgaria-Luxemburg Business Club – non-profit association – Chairman 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:

## 1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

### 1.7. Management Board of UBB AD (continued)

- UBB Interlease EAD - Chairman of the Board of Directors
- UBB Insurance Broker EAD - Chairman of the Board of Directors
  
- **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
    - Association 'United for Charity' – Chairperson of the Management Board
    - Non-profit association Marianka - Member of the Management Board
    - 'Zhivo selo' Foundation - Member of the Committee on the trainings control
  
- **Tatyana Ivanova – Member of the Management Board and Executive Director**
  - a) She does not participate in commercial companies as a general partner;
  - b) There are no legal entities wherein she holds directly or indirectly at least 25% of the votes in the general meeting or over which he has control;
  - c) Other legal entities besides UBB AD in whose management or control bodies she participates:
    - BORICA AD - Member of the Board of Directors
    - Pension Insurance Company UBB EAD – Member of the Supervisory Board
  
- **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) There are no legal entities besides UBB AD in whose management or control bodies she participates.

### 1.8. Contracts under Article 240b of Commercial Act concluded in 2021

In 2021 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 2021 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. 10 of 13.05.2021 Mr. Peter Andronov was released as a Management Board Chairperson and CEO of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 02.06.2021. The number of members of the Management Board was changed from 7 (seven) to 6 (six).

At the same Supervisory Board meeting a decision was made for re-electing of members of the Management Board of UBB AD for a new four-year mandate and their powers as Executive Officers were re-confirmed, namely: Christof Marcel Elza De Mil, Svetla Atanasova Georgieva, Teodor Valentinov Marinov and Ivaylo Stanev Mateev.



## **1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)**

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

- By decision of the Supervisory Board of UBB AD under Minutes No. 16 of 03.08.2021 Mr. Peter Robben was elected as the new Management Board Chairperson and CEO of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 10.09.2021. The number of members of the Management Board was changed from 6 (six) to 7 (seven).

In 2021 the following personal changes were made in the composition of the Supervisory Board of the Bank:

- With a decision of the General Meeting of Shareholders from 14.09.2021 Mr. Luc Popelier was released as a Supervisory Board Member and Mr. Peter Andronov was elected as a new member of the Supervisory Board of UBB AD. The change was officially published in the Commercial Register and Register of Non-profit Legal Entities on 20.09.2021.

### **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 2021 is BGN 2 858 thousand (2020: BGN 3 237 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 2021 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**

In January 2022, the Management Board of UBB AD in its capacity as a sole owner of the capital of UBB Insurance Broker EAD agreed an action plan for the transfer of ownership of UBB Insurance Broker EAD from UBB AD to UBB Interlease EAD. The Share purchase agreement for 100% of the shares (or 500 000 shares) is expected to be concluded until the end of second quarter of 2022 for a sale price of 1 950 thousands.

At the time this report was being prepared, the invasion by Russia of Ukraine required additional attention at group and local level. UBB has no exposure to Ukraine and Belarus and only limited direct exposure to Russia at the amount of BGN 173 thousands (mainly nostro account with PJSC Rosbank). UBB is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spillover effects to UBB and its clients, both financially and operationally, with amongst others high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

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 2021.

## 1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

### 1.13. Information about financial instruments

For more extensive information regarding financial instruments and risk associated with them please refer to the notes to the Separate and Consolidated financial statements.


### 1.14. 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 relevant 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.



Christof De Mil  
Executive Director



Teodor Marinov  
Executive Director

Date: 05.04.2022



**Separate and Consolidated Corporate Governance Statement  
of United Bulgarian Bank AD (UBB)  
as of 31.12.2021  
(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 *KBC Group*, Section *Important Documents*: ([https://www.ubb.bg/attachments/Tab/923/download\\_en/Corporate-Governance-Code-UBB-EN-05082019.pdf](https://www.ubb.bg/attachments/Tab/923/download_en/Corporate-Governance-Code-UBB-EN-05082019.pdf)).

### 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 European Central Bank in cooperation with the Bulgarian National Bank. In 2021 the following personal changes were made in the composition of the Supervisory Board of the Bank:

- With a decision of the General Meeting of Shareholders from 14.09.2021 Mr. Luc Popelier was released as a Supervisory Board Member and Mr. Peter Andronov was elected as a new member of the Supervisory Board of UBB AD. The change was officially published in the Commercial Register and Register of Non-profit Legal Entities on 20.09.2021.

### 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.

## 1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

- **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, where majority of them are external to and independent from the Bank.
- **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 considering 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 and majority of them are external to and independent from the Bank.
- **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 and majority of them are external to and independent from the Bank. 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 considering the balance of professional knowledge and skills the various qualifications and professional experience of the board's 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.



## 1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

### Audit Committee (continued)

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. 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 deciding 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 European Central Bank in cooperation with the Bulgarian National Bank.

In 2021 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. 10 of 13.05.2021 Mr. Peter Andronov was released as a Management Board Chairperson and CEO of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 02.06.2021. The number of members of the Management Board was changed from 7 (seven) to 6 (six).

At the same Supervisory Board meeting a decision was made for re-electing of members of the Management Board of UBB AD for a new four-year mandate and their powers as Executive Officers were re-confirmed, namely: Christof Marcel Elza De Mil, Svetla Atanasova Georgieva, Teodor Valentinov Marinov and Ivaylo Stanev Mateev.

- By decision of the Supervisory Board of UBB AD under Minutes No. 16 of 03.08.2021 Mr. Peter Robben was elected as the new Management Board Chairperson and CEO of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 10.09.2021. The number of members of the Management Board was changed from 6 (six) to 7 (seven).

### Committees to the Management Board

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

- **Credit committees** – UBB AD's credit committees are standing bodies performing management and monitoring of UBB's credit activity 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.

## 1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

### Committees to the Management Board (continued)

- **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).
- **Corporate Sustainability and Responsibility Steering Committee Bulgaria** – A committee functioning on country level (reviewing matters common for all companies within KBC Group in Bulgaria). It assists the Country Team with the implementation and proper functioning of the approved KBC Group’s corporate social responsibility (CSR) framework in Bulgaria.
- **Sustainable Finance Committee (“GREEN-COM”)** - A committee functioning on country level (reviewing matters common for all companies within KBC Group in Bulgaria) as a sub-committee to the Corporate Sustainability and Responsibility Steering Committee Bulgaria. It supports the efforts of the entities of the Group in Bulgaria (UBB, DZI and UBB Interlease EAD, mainly) to achieve strategy and targets of asset portfolio composition minimizing the risks associated with environmental changes and their impact while benefitting from the opportunities arising as a result from the shift towards sustainable finance. Supports the customers in their adaptation to climate change.
- **Local Provisioning Committee** - The Committee is established by and has received its authority by the Management Board. It is a collective body of UBB that makes decisions and recommendations on all topics related to impairments of financial assets of the Bank.
- **Local Investment Committee**, empowered to adopt decisions and has the right to approve the acquisition, investment and sale of real estate, in connection with collateral for loans from Legacy or a new bank and acquired assets, with a value equal to at least EUR 250,000 but less than EUR 1,000,000.
- **Investment Committee**, empowered to adopt decisions and has the right to approve the acquisition, investment and sale of real estate, in connection with collateral for loans from Legacy or a new bank and acquired assets with a value higher than EUR 1,000,000.
- **The Project Oversight Committee (POC)** is authorized to review, prioritize and approve all projects and project proposals including their budget and capacity requirements. 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).

### 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 AD’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 31.12.2021 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 AD’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 AD.

## 1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

### Shareholding structure (continued)

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 UBB AD'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
Peter Andronov SB Chairperson	1969	Master's Degree in Finance	2021	2025
Christine Van Rijseghem SB Member	1962	Master's Degree in Law and Business Administration (MBA) – Financial sciences	2017	2024
Franky Depickere SB Member	1959	Master's degree in commercial and financial sciences	2018	2022
Barak Chizi SB Member	1974	Master's degree in Industrial Engineering, Data Mining; PhD degree in Industrial Engineering, Machine learning and AI	2020	2024
Svetoslav Gavriiski Independent SB Member	1948	Master's degree in Economics of the external trade	2020	2024
Victor Yotzov Independent SB Member	1961	Master's degree in Economics, PhD degree in Economics	2020	2024

### 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 6 (six) persons:

- 1 (one) of them has been elected SB member 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 with a resolution of the General Meeting of Shareholders dated 15.04.2020 she was re-elected for a new 4-year mandate;
- 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;
- 1 (one) has been elected SB member with a resolution of the General Meeting of Shareholders dated 17.12.2019 for a period of 4 (four) years; and
- 2 (two) have been elected independent SB members with a resolution of the General Meeting of Shareholders dated 15.04.2020 for a period of 4 (four) years; and
- 1 (one) has been elected SB member with a resolution of the General Meeting of Shareholders dated 14.09.2021 for a period of 4 (four) years.



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

### 2.2. Election and mandate (continued)

#### 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.

### 2.3. Professional experience and other activities and functions

#### Mr. Peter Andronov

Supervisory Board Chairman

Chief Executive Officer of International Markets Business Unit in KBC Group N.V.

Year of Birth: 1969

Peter Andronov was Management Board Chairman and UBB AD's Chief Executive Officer until March 2021. He assumed this position as from the acquisition of UBB by the Belgian financial group KBC in June 2017 up until March 2021.

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

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

His career at KBC Group started in July 2007 when he was appointed Executive Director of CIBANK. In March 2008 he became CEO, while since March 2011 he has been Country Manager of KBC Group for Bulgaria. Peter Andronov's career path involves series of positions in the private banking sector and the BNB. Over the 2002 – 2007 period he was Director General of Banking Supervision Department at the Bulgarian National Bank. From 2003 until May 2007 he was Management Board Member of the Reserve Guarantee Fund. He participated in the elaboration of the currently effective legislation on banking supervision, including the Credit Institutions Act, the Act on the Additional Supervision on Financial Conglomerates, the BNB Ordinances on supervisory activities, guidelines etc. He is also member of the BNB Investment Committee. Over the period 2005 – 2007 Peter Andronov was observer and member of the European Banking Committee and of the Committee of European Banking Supervisors at the European Commission. At the same time, he was also an observer and member of the Banking Supervision Committee at the European Central Bank. On behalf of the Bulgarian government he led the negotiations in the domain of banking for Bulgaria's accession to the European Union. Over the period 2008 - 2020 Peter Andronov was a MB Member of the Association of Banks in Bulgaria, serving two mandates as its Chairman – from 2015 until 2017 and from 2018 until 2020.

He was university lecturer in finance at the University of National and World Economy (UNWE) from 1995 until 2004. He is a member of the Board of Trustees of Sofia University St. Kliment Ohridski, as well as of that of the University of National and World Economy. Since 1995 he has been lecturing at the UNWE, at the High School of Insurance and Finance and at New Bulgarian University / the International Banking Institute.

Peter Andronov is a three-time winner of the Banker of the Year award, as well as of the Manager of the Year and Burov Prize for bank management, Mr. Economy and many others. He is a bearer of the Order of the Crown of the Kingdom of Belgium.

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

KBC Group NV	Member of the Executive Committee
KBC Bank NV	Member of the Board of Directors; Executive director
KBC Insurance NV	Member of the Board of Directors; Executive director
KBC Asset Management NV	Chairman of the Board of Directors; Non-executive director
K&H Bank Zrt.	Chairman of the Board of Directors; Non-executive director
K&H Insurance Zrt.	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
CSOB Banka Slovakia	Chairman of the Supervisory Board
KBC Insurance NV Irish Branch	Chairman of the Supervisory Board
KBC Global Services NV	Member of the Management Board

#### Ms. Christine Van Rijseghem

Supervisory Board Member  
Chief Risk Officer at KBC Group NV  
Year of Birth: 1962

Ms. Van Rijseghem 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 Rijseghem 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).

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

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

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

#### 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 Lanschot Bankiers in the Netherlands. Since 2005 onwards Mr. Depickere is also a member of the Strategic Committee of F. van Lanschot 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 'International Raiffeisen Union' (I.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:

CERA CV	Member of the Board of Directors and Executive Director
CBC BANQUE SA	Member of the Board of Directors, Non-executive director
KBC ANCORA NV	Member of the Board of Directors and Executive Director
KBC GLOBAL SERVICES NV	Member of the Supervisory, Non-executive director
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, Non-executive director
KBC Bank NV	Member of the Board of Directors, Non-executive director
KBC Group NV	Member of the Board of Directors, Non-executive director
KBC Verzekeringen NV	Member of the Board of Directors, Non-executive director
Euro Pool System International BV	Member of the Board of Directors, Non-executive director
BRS Microfinance Coop cv	Member of the Board of Directors, Non-executive director
International Raiffeisen Union e.V.	Chairman of the Board of Directors, Non-executive director

#### Mr. Barak Chizi

Supervisory Board Member

General Manager Big Data, Data Analytics and AI at KBC Group N.V.

Year of Birth: 1974

Mr. Barak Chizi graduated in 1996 as an industrial and management engineer in the Technion – Israel Institute of Technology.

He further specialized in AI and machine learning (MSc and PhD in Tel – Aviv University), and since then teaches this subject at Tel – Aviv University and In Ben – Gurion University. In 2003 he became a data specialist for the Israeli government. In parallel, he started his own consulting firm, providing unique knowledge to global companies. In 2011 he was appointed as senior R&D director and Senior Researcher at Deutsche Telekom. In May 2015, he joined KBC and from August that year he started his role as general manger big data, data analytics and AI. He does not participate in management or control bodies in legal entities besides UBB AD.

#### Mr. Svetoslav Gavriiski

Independent Supervisory Board Member

Year of Birth: 1948

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

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

Svetoslav Gavriiski is independent member of the Supervisory Board of UBB as of May 2020. He graduated with major in Foreign Trade Economics from Karl Marx Higher Institute of Economics (presently re-named to University of National and World Economy, or UNWE) in 1972. His professional path started at the Ministry of Finance in 1972, where up to 1997 he held the following positions – specialist, chief specialist, expert, head of department, and head of main department.

In the period 1992 – 1997 Mr. Svetoslav Gavriiski was first Deputy Minister of Finance and from February until May 1997 he was Minister of Finance in the caretaker government. Over the period 1991 – 1994 he led the negotiations with the creditors from the Paris Club, and after that was part of the negotiations team with the London Club of private creditor banks for rescheduling and renegotiating Bulgaria’s foreign debt.

Over the period 1991 – 1997 Mr. Gavriiski was member of the Management Board of Bulbank. Over the period June 1997 – October 2003 he was elected BNB Governor by the 38th National Assembly. He led the executing of the monetary reform and the introducing and maintaining of the Currency Board in Bulgaria. Mr. Svetoslav Gavriiski was representative for Bulgaria in the International Monetary Fund from 1992 until 2003, and as of 2004 – 2005 he was an advisor. From 2006 until 2016 Mr. Svetoslav Gavriiski was a member of the Management Board (from 2011 until 2016 its chairperson) and Chief Executive Officer of Allianz Bank Bulgaria AD, and from 2016 until 2018 he was Chairperson of the Management Board of Allianz Bank Bulgaria AD.

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

Pension Insurance Company Allianz Bulgaria AD	Member of the Supervisory Board
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#### Mr. Victor Yotzov

Independent Supervisory Board Member

Year of Birth: 1961

Assoc. prof. Victor Yotzov is independent member of the Supervisory Board of UBB as of May 2020. He graduated in 1985 from the University of National and World Economy as a Master of Economics with major in Management and Planning of the National Economy (Socio-economic planning). In 2001 he acquires educational and scientific degree ‘doctor’ of Economics.

Assoc. prof. Victor Yotzov’s career path and research activity started in 1986 when, after a special competition procedure, he was appointed as a research fellow in Analytic and Forecasting Activity Section of the Economic Institute with the Bulgarian Academy of Sciences. From 1992 until 1994 he was part-time lecturer in Macroeconomics at the International Management, Trade and Marketing (MT&M) College. In the period 1998 – 2001 he is part-time lecturer in Theory of Money and Credit in Finance Department with the University of National and World Economy.

In 1995 Victor Yotzov started working at the Bulgarian National Bank as an expert in Balance of Payments and Foreign Debt Department, while in 1997 he became head of the Economic Research Department at the BNB. In 2001 Assoc. prof. Victor Yotzov was appointed as Head of Economic Research and Forecasts Directorate and acting as Chief Economist of the BNB. Over the period 2003 – 2010 he worked as a representative for Bulgaria at the International Monetary Fund and counsel to the Executive Director. In 2014 upon obtaining an academic rank Victor Yotzov became Associate Professor in Finance Department of the University of National and World Economy and at the same time was appointed at the Macroeconomics Section at the Institute of Economic Research with the Bulgarian Academy of Sciences. He is author of many publications in the field of finance. His scientific interests are in the domains of monetary theory, banking, public finance and foreign trade. In the period 2016 – 2018 he is a Director of the Economics and Policies Institute with the University of National and World Economy. In June 2015 Assoc. prof. Victor Yotzov was nominated for holding a BNB Governor position.

## 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. Yotzov participates:

Fund for Sustainable Urban Development EOOD	Chairperson of the Management Board
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### 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
Peter Andronov	(Chairman)		(Chairman)	(Chairman)
Christine Van Rijseghem	•	(Chairperson)		
Franky Depickere	•			
Barak Chizi	•			
Svetoslav Gavriiski	•	•	•	•
Victor Yotzov	•	•	•	•

### 2.5. Annual Report of the Supervisory Board

In 2021 the Supervisory Board of United Bulgarian Bank held 25 meetings, of which 4 *in praesentia* and 21 *in absentia* ones, pursuant to Art. 39, Para. 4 of the UBB's Articles of Association, namely: The proposed decisions were provided to every member in writing and all SB members have stated their consent to those in writing. The requirement of Art. 38, Para. 1 of the Bank's Articles of Association has been observed, according to which the Supervisory Board is to hold its meetings at least once per quarter, as in 2021 regular *in praesentia* meetings were held every quarter – March, June, September and December 2021.

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 2021 may be summarized, as follows:

1. The first group of topics reviewed by the Supervisory Board during 2021 are related to approval of changes in the composition of the Management Board of UBB AD, as well as in the composition of the committees to the Supervisory Board.
2. The second group of issues reviewed by the SB in 2021 are 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).
3. By virtue of Art. 37, Para. 2, Item 7 in relation to Art. 48, Para. 1, Item 3, letter „h“ of the UBB's Articles of Association were approved changes related to the 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.
4. The agenda of the *in praesentia* meetings of the SB during 2021 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.



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

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

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;

6. Other SB decisions adopted in 2021 – approval of the report of the MB for the activity of UBB AD for 2020 and the certified by the auditor’s annual financial report for 2020, annual review of all equity participations of UBB AD in other entities, approval of the selection of first and second auditing companies for verification and certification of UBB’s annual financial statements for 2021 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; approval of the split per month and per segments of APC budget of UBB AD for 2021, on consolidated basis, as well as the KPIs of UBB AD for 2021, on consolidated basis; reviewing of report regarding the implementation of KBC Group Strategy PEARL+; The Next level, the innovations in the bank, evaluation of customer experience, marketing communications and in the human resources area.

The activity of the Supervisory Board over 2021 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
<b>Peter Roebben Chairman</b>	1966	Chief Executive Officer	Master's Degree in Law and Business Administration
<b>Christof De Mil Member</b>	1973	Executive Director Finance	Master’s Degree in Applied Economics and Business Administration
<b>Svetla Georgieva Member</b>	1967	Executive Director Risk	Master’s Degree in International Business Management and Business Administration qualification in Industrial Electronics
<b>Desislava Simeonova Member</b>	1972	Executive Director SME & Corporate Segment	Master’s Degree in Law
<b>Teodor Marinov Member</b>	1971	Executive Director Legacy and Subsidiaries	Master’s Degree in Systems & Management and Business Administration
<b>Ivaylo Mateev Member</b>	1967	Executive Director Operations	Master’s Degree in Economics & Management of Commerce
<b>Tatyana Ivanova Member</b>	1975	Executive Director Marketing and Retail Distribution	Master’s degree in Finance and Management Business Administration
<b>Persons non-members of the Management Board but present at the Board meetings with advisory vote entitlement:</b>			
<b>Hristina Filipova Procurator</b>	1952	Procurator	Master's Degree in Economics

### **3. MANAGEMENT BOARD (CONTINUED)**

#### **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 of 7 (seven) persons who have been elected MB members by virtue of decisions of the Supervisory Board dated 14.06.2017, 20.07.2017, 28.11.2018, 20.03.2020 and 03.08.2021, for a period of 4 (four) years in accordance with the requirement of Art. 41, Para. 1 of the UBB's Articles of Association.

#### **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;

### 3. MANAGEMENT BOARD (CONTINUED)

#### 3.2. Election and mandate (continued)

- ✓ 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, and 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.

#### 3.3. Professional experience and other activities and functions

##### Mr. Peter Roebben

Chairman of the Management Board and Chief Executive Officer  
Year of Birth: 1966

Peter Roebben is Country Manager of KBC Group in Bulgaria, Chairman of the Management Board and Chief Executive Officer of UBB. Until his appointment at these positions, he was the Chief Executive Officer of KBC Bank in Ireland.

Peter Roebben started his career in 1992 as an account officer Corporate Banking for Kredietbank (now KBC) in London. From 1994 until 1998 he was Director of the Iberia Representative Office in Madrid. After one year in Brussels as account manager for the group's Multinationals Division, he became General Manager Corporate Banking in the Paris branch in 1999. From 2005 until 2010 he was Executive Director Corporate Banking at CSOB Bank in the Czech Republic. Between 2010 and 2017 he served as Senior Managing Director and member of the Executive Committee of K&H Bank & Insurance Hungary. Later in 2017 he becomes Senior General Manager Group Credit Risk at KBC Group's Head Office in Brussels. In 2019, Peter Roebben was appointed Chief Executive Officer of KBC Bank in Ireland, which he held until his current appointment as Country Manager of KBC Group in Bulgaria, Chairman of the Management Board and Chief Executive Officer of UBB. Peter Roebben has graduated from the University of Leuven, Belgium with a master degree in law. Later he has obtained an MBA from Vlerick Business School, Belgium.

Mr. Roebben does not participate in management and controlling bodies of legal entities, other than UBB AD.

##### 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.



### 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. De Mil participates:

- Belgium-Bulgaria-Luxemburg Business Club – non-profit association – Chairman of the Executive Board
- German – Bulgarian Chamber of Industry and Commerce – non-profit 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.

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 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 2<sup>nd</sup>, 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 - Member of The Board of Directors
- UBB Insurance Broker EAD - Member of The Board of Directors
- "Atanas Burov" Foundation - Member of the Management Board

Mrs. Desislava Simeonova is a member of the Management Board of the Association of Banks in Bulgaria which is a non-profit association.

### 3. MANAGEMENT BOARD (CONTINUED)

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

##### 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.

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 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:

- Drujestvo za Kasovi Uslugi AD - Member of the Board of Directors
- Association 'United for Charity' – Chairperson of the Management Board
- Non-profit association Marianka - Member of the Management Board
- 'Zhivo selo' Foundation - Member of the Committee on the trainings control

##### Mrs. Tatyana Ivanova

Member of the Management Board and Executive Officer Marketing and Retail Distribution  
Year of Birth: 1975

Tatyana Ivanova started her career 20 years ago in Société Generale and built since then a broad and international career in various subsidiaries of the Group. She was, amongst others, Retail Director in the Republic of Macedonia, worked several years as Head of Sales promotion in Russia, as Marketing manager in the HQs Paris, as well as Head of Marketing and Digital banking in Société Generale, Bulgaria.

### 3. MANAGEMENT BOARD (CONTINUED)

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

As of the beginning of November 2018 until taking the position of a Management Board Member and Executive Officer Marketing and Distribution – Retail banking, she is Director of Retail Marketing and Digital Sales Directorate in UBB. Tatyana holds EMBA from HEC-Paris. She is fluent in English, French and Russian.

Other legal entities besides UBB AD in whose management or control bodies she participates:

- BORICA AD - Member of the Board of Directors
- Pension Insurance Company UBB EAD – Member of the Supervisory Board

#### Ms. Hristina Filipova

Procurator

Year of Birth: 1952

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

In 1983 she worked as a primary school teacher in Havana, Cuba, while in 1986 she returned to Bulgaria and started work at the Institute for Hydrotechnical Equipment and Melioration. Ms. Filipova held the position Specialist at the BNB - Blagoevgrad until 1991, after which she worked as branch manager of Rila branch at BTB AD – Blagoevgrad. 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. Annual report of the Management Board

In 2021 the Management Board of United Bulgarian Bank held 58 meetings of which 52 *in praesentia* and 6 *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 2021 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.

### 3. MANAGEMENT BOARD (CONTINUED)

#### 3.4. Annual report of the Management Board (continued)

The activity of the Management Board over 2021 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. Svetoslav Gavriiski

UBB Risk and Compliance Committee Member  
Independent member of the UBB Supervisory Board

Assoc. prof. Victor Yotzov

UBB Risk and Compliance Committee Member  
Independent member of the UBB Supervisory Board

Pursuant to Ordinance 7 of BNB for the organization and risk management of banks, 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.

##### 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 2021 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; Risk Frameworks, Risk scan, Risk appetite, 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 pending legal claims exceeding EUR 50K ; information about risk-based pricing; internal control statements, risk assessment of the remuneration policy and practice, Oversight of the remuneration of the Internal Audit and the other control functions, SREP 2021 Preliminary results, Report on SEPA Incident.



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

### 4.1.2. Risk and Compliance Committee Report (continued)

The members of the Risk and Compliance Committee discussed and accepted the Annual Compliance Report, Annual MIFID 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 2022.

The Committee reviewed and proposed to the SB for ratification the following documents: Risk Appetite Framework of UBB for the period 2021-2024, ICAAP/ILAAP Reports, ICAAP Policy, Risk Governance Charter of UBB, UBB Risk Scan, revised version of the Compliance Function Charter and revised version of Integrity Policy of UBB.

## 4.2. Remuneration Committee

### 4.2.1. Remuneration Committee Members

Mr. Peter Andronov

UBB Remuneration Committee Chairman  
UBB Supervisory Board Chairman

Mr. Svetoslav Gavriiski

UBB Remuneration Committee Member – external and independent  
UBB Supervisory Board Member

Mr. Victor Yotzov

UBB Remuneration Committee Member – external and independent  
UBB Supervisory Board Member

Pursuant to Ordinance 4 of BNB for the requirements for remunerations in banks, 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.

### 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 a consulting structure subordinate to the Supervisory Board and consist of chairperson and independent 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 considering 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 2021 the Committee held two meetings. The main topics on the agenda and the decisions taken at the first committee meeting were related to ratification of the new KBC Group Remuneration Policy and the updated UBB Remuneration Policy, in order to comply with the Group standards, approval of the amended risk gateway parameters for 2021 in the UBB Remuneration Policy, approval of variable remuneration for the previous year and payment of the deferred amounts for past years, changes in fixed remuneration and approval of the new KPIs for the Board members.

At the second meeting of the Committee in 2021 the topics and decisions taken were related to the additional amendment of the UBB Remuneration Policy, due to the latest approved changes in the Regulation No: 4 of BNB on the Requirements for Remunerations in Banks.

All proposals of the Committee were approved by the Supervisory Board.

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

### 4.3. Nomination Committee

#### 4.3.1. Nomination Committee Members

Mr. Peter Andronov

UBB Nomination Committee Chairman

UBB Supervisory Board Chairman

Mr. Svetoslav Gavriiski

UBB Nomination Committee Member – external and independent

UBB Supervisory Board Member

Mr. Victor Yotzov

UBB Nomination Committee Member – external and independent

UBB Supervisory Board Member

Pursuant to the 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, 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.

#### 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, considering 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 2021 the Committee held one meeting. The main topics on the agenda and the decisions were related to the annual assessment of the structure, size, composition and performance of the Management Board and Supervisory Board of UBB for 2021 acknowledging the changes with respect to Management Board and Supervisory Board of UBB and acknowledging the collective suitability assessments of the new members of the Management Board and Supervisory Board, as well as to the acknowledgement of the results from the conducted self-evaluation of the activity of the Supervisory Board and the identified areas for improvement. 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 Independent Financial Audit Act, 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. Peter Andronov. One of the external and independent members of the Audit Committee – Stefan Ivanov, 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.

#### Mr. Stefan Ivanov

#### Chairman of the Audit Committee

Year of birth: 1972

Mr. Ivanov is a Co-founder and Managing Partner of Challenger Capital Management - an advisory boutique focused on M&A and financing transactions in Bulgaria. During the period 2007 - 2011 he was the CEO of Citibank in Bulgaria - a leading Corporate & Investment Bank in the country. Between 2000 and 2006 he acted as International Cash Management Head for Citibank in Brazil and subsequently as Head of Strategic Development for Citibank in Brazil. During the period 1998 - 1999 he held diverse roles with Citibank in London, Brazil, South Korea and Tunisia. Prior to that he was trading derivatives with Banque Paribas in New York and on the floor of the American Stock Exchange. During the period 2007 - 2011, Mr. Ivanov was Board Member and Vice President of the American Chamber of Commerce in Bulgaria as well as Board Member of the Confederation of Employers and Industrialists in Bulgaria. Mr. Ivanov is an alum of Harvard Business School from the Program for Leadership Development (2007). He has an MBA degree in Financial Engineering from Cornell University (1997) and a Bachelor of Arts degree in Business Administration from the American University in Bulgaria (1995).

#### Ms. Snezhana Kaloyanova

#### Audit Committee Member

Year of Birth: 1966

Ms. Kaloyanova holds a Master's Degree in Accountancy and Control from the University of National and World Economy (former Karl Marx Higher Institute of Economics). She started her professional career in 1985 as an accountant at the Agrarian and Industrial Complex in Dragovishtitsa town. Over the period January 1988 – October 1989 she held the position of an accountant at the Machines and Tractors Facility in Shishkovtsi village. Over the period December 1991 – May 1995 Ms. Kaloyanova was Chief Accountant at Manov&Co enterprise. Ms. Kaloyanova was manager and senior manager at Audit and Business Consultancy Services and partner in the specialized auditing company PricewaterhouseCoopers Audit OOD for the period from May 1995 until September 2006. Over the period September 2006 - May 2007 she was co-founder and partner in the specialized auditing company Moore Stephens Bulmar Financial Audit OOD. Since May 2007 to date she has been managing partner in NS CONSULTING OOD auditing company. Ms. Kaloyanova is a certified public accountant and a registered auditor, Member of the Institute of Chartered Certified Public Accountants since 1994 to date. She has been in charge of engagements for expressing assurance (audits and reviews) on individual and consolidated annual and interim financial statements prepared in accordance with the National Financial Reporting Standards for Small and Medium-sized Enterprises (NFRSSMSE) or with the International Financial Reporting Standards (IFRS) (including also their first-time application), on group reporting forms prepared in accordance with the IFRS, the Generally Accepted Accounting Principles of the 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.

## 5. AUDIT COMMITTEE (CONTINUED)

### 5.1. Audit Committee Members and professional experience (continued)

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. Peter Andronov

##### Audit Committee Member

Chief Executive Officer of International Markets business unit in KBC Group N.V.

Year of Birth: 1969

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 2021 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.
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.



## **6. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)**

### **6.1. Credit Committees (continued)**

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 – III – for approval of credit deals and for problem loans of various levels of competence.
4. Business Credit Committees - for approval of credit facilities by the Business Units.
5. Credit Committees for Retail Segment, as follows:
  - 5.1. 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 including total exposure of the borrower and related parties for Micro business and standard requests for credits of individuals as well as requests for applying exceptions for risk parameters with the exception of the maximum product limit of a mortgage loan to individuals at an amount lower or equal to BGN 500 000 including total exposure of the borrower and related parties.
  - 5.2. 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:

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

The Committee comprises of 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, the Director of Finance Directorate and the Director of Markets and Investment Banking Directorate. The Head of "Internal Audit" Directorate and Head of "Compliance" Directorate shall take part in the Local Risk ManCo meetings as an observer.

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.

### **6.3. New and Active Products and Processes Committee /NAPPC/**

NAPP is among the Management Board committees, established by the MB of UBB AD, with responsibilities, explicitly assigned by the latter.

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

### 6.3. New and Active Products and Processes Committee /NAPPC/ (continued)

'New and Active Products Process' (NAPP) ensures that all products and services offered to the customers of UBB and all client-facing processes have first gone through an in-depth risk assessment. More specifically, the NAPP aims to:

1. **Ensure a fair treatment of the client.** This requires a careful balancing between the return which the product offers for the client and for KBC and the risks linked to the product. NAPP is put in place to avoid that products and services are being launched which are not in the client's interest and thereby protects KBC against conduct risk.
2. **Guard the strategic fit of products/services.** In a rapidly changing environment, NAPP plays a key role in ensuring that new and existing products/services support the digital transformation and fit into the current KBC strategy.
3. **Pro-actively identify and mitigate risks.** The NAPP is the most important process to ensure early identification and mitigation of all risks related to products, services and changes to client facing processes, which might negatively impact the customer and/or KBC. During NAPP, all financial, legal, compliance, operational and other risk aspects of products/services are considered and addressed.
4. **Comply with regulation.** The NAPP safeguards that all products and services are in line with regulations.
5. **Support innovation and smart copy.** The NAPP strives to support business during transformation & digitization. On the one hand, it ensures new risks entailing from transformation & digitization are detected and mitigated. On the other hand, the process itself needs to be fast and frictionless to support a fast-time-to-market.

NAPP, being product or distribution committee, holds at least one regular monthly meeting. Prior to creating/buying/changing/reviewing/selling a product a NAPP decision should be made, while observing the appropriate format – regular proposal for new products, changes, reviews, decommissioning, immaterial change, experiment track, crisis track.

The Committee comprises of members from the business and all relevant risk-related advisory functions, whereas the Chairperson is Executive officer from the business, and the committee is jointly conducted with the CRO, Risk management unit head. 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. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)

### 6.5. Local Investment Committee and Investment Committee of UBB AD

**The Local Investment Committee (LIC)** takes decisions and is empowered to approve acquisitions, investments and sales 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 Internal rules for Management of assets for sale.

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** is empowered to approve acquisitions, investments and sale of real estates in line with Legacy loans or New Bank loans and acquired assets of value exceeding EUR 1 000 000. The final decisions on acquisitions, investments and sale of real estates in line with Legacy or new bank loans and acquired assets 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 (where the work of IT, Business Processes and Organization, Digital and Online Banking Business Program, Central Data and Card Center is planned) 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 (other than 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 technical resources).

### 6.7. Corporate Sustainability and Responsibility Steering Committee and Sustainable Finance Committee

**Corporate Sustainability and Responsibility Steering Committee Bulgaria** is chaired by the Country Manager of KBC Group in Bulgaria – Mr. Peter Roebben. The Committee assists the Country Team with the implementation and proper functioning of the approved KBC Group's corporate social responsibility (CSR) framework in Bulgaria. It has overall responsibility locally for the CSR-related policies of the Group. The Corporate Sustainability and Responsibility Steering Committee Bulgaria provides strategic guidance and approves the CSR projects and follows up on their progress within the country.

The purpose of the **Sustainable Finance Committee ("GREEN-COM")** chaired by Teodor Marinov, MB Member of UBB is to oversee climate-related risks within the entities of KBC in Bulgaria (UBB, DZI and UBB Interlease EAD) and support the customers in their adaptation to climate change. The main tool in this respect is the elaboration of policies (White Papers) - documents assessing the current impact of KBC Bulgaria activities, primarily **the carbon footprints of our portfolios and the green assets financed**. Gather the data needed to do such assessment, address the reporting requirements needed to quantify the impact. Set Targets for the impact of KBC Bulgaria's activities by 2030, as well as interim targets. Take actions to achieve the set targets – create **green products, amend policies** with regards to eligibility for lending, equity investments, and insurance. **Join forces with the customers** and work together towards the achievement of the common goals and the usage of the opportunities.

## **7. REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS**

The amount of the remuneration of the members of the management and supervisory bodies of UBB for the financial year 2021 is BGN 2 858 thousand (2020: BGN 3 237 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;
- 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 General Meeting of Shareholders**

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



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

### **8.2. Convening of the General Meeting of Shareholders (continued)**

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.

### **8.3. 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 8.1 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 2021**

The Regular Annual General Meeting of Shareholders of UBB AD (GMS) in 2021 took place on 09.06.2021. 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 2020, as well as a corporate governance statement of UBB AD for 2020 and a non-financial declaration of UBB AD for 2020, the report of the auditing companies on the annual financial report as well as on the consolidated annual financial report of UBB AD for 2020, certified by the auditors annual financial report, as well as of the certified by the auditors consolidated annual financial report of UBB AD for 2020. The proposal of the Management Board confirmed also by the Supervisory Board of the bank for non-allocation of UBB AD's profit for 2020 was approved, with respect to a decision of the Management Board of BNB № 11 as of 28.01.2021, pursuant to which the credit institutions in Bulgaria should not allocate a part or the whole profit for 2020, as dividends, as reverse buying of shares or other similar payments, as part of the macro prudential measures in relation to the effects for the economy from the spread of coronavirus COVID-19.

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

### 8.4. General Meeting of the Shareholders in 2021 (continued)

On 09.06.2021 the General Meeting of Shareholders of UBB AD also made 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 2020 and accepting the report of the Audit Committee of the bank for 2020.

In 2021 two extraordinary General Meetings of Shareholders of the bank were held, as follows:

- At the General Meeting on 14.09.2021 decisions were taken regarding changes in the composition of the Supervisory Board of UBB AD: the release of Mr. Luc Popelier as a member of the Supervisory Board of UBB AD and the appointment of Mr. Peter Andronov as a new member of the Supervisory Board of the bank, determining his mandate, remuneration and management guarantee of the new member of the Supervisory Board of UBB AD.

In addition, changes in the composition of the Audit Committee of UBB AD were approved: the release of Mr. Luc Popelier as a member of the Audit Committee and Prof. Statty Stattev as external for the bank and independent member of the Audit Committee of UBB AD and the appointment of Mr. Peter Andronov as a new member of the Audit Committee and Mr. Stefan Ivanov as a new external for the bank and independent member of the Audit Committee of UBB.

- At the General Meeting on 17.12.2021 a decision was taken for appointment of auditing companies for examination and certification of the annual financial report of UBB for 2021, preliminary coordinated with BNB in accordance with art. 76, para. 4 of the Credit Institutions Act. At the same General Meeting the Annual report of Internal Audit function for 2020 was also accepted.

		
<b>Christof De Mil</b>		<b>Teodor Marinov</b>
<b>Executive Director</b>		<b>Executive Director</b>
<b>Date: 05.04.2022</b>		

**SEPARATE AND CONSOLIDATED NON-FINANCIAL DECLARATION  
OF UNITED BULGARIAN BANK AD (UBB)  
AS OF 31 DECEMBER 2021  
(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-assurance 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 12.8 billion, with approximate market share of 10.3% at that time.

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 2021 Fitch rating agency reconfirms the UBB's long term rating to 'A-' capped by the Bulgarian country Ceiling of 'A-', two notches above the Bulgarian sovereign rating (BBB/Stable).

**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 fund citizens, businesses and institutions in order 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 protection and brokerage, factoring, leasing and pension schemes. In this way, we also contribute to the sustainable growth of the economy.

#### *Our clients, employees and offices of the Bank on individual base*

<b>Clients</b>	
<i>Retail</i>	<b>859 785</b>
<i>Business</i>	<b>69 706</b>
<b>Employees</b>	2 555
<b>Bank branches and offices</b>	210

#### *UBB's long-term credit rating*

Fitch (May 2020)	BCRA (September 2021)
A-	A-

#### *Our shareholders*

<b>KBC Bank N.V.</b>	<b>99.92%</b>
<b>Other shareholders</b>	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 and their everyday tasks. 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 promptly and adequately, as well as 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, including from new players for the sector, 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**

In 2021 Bulgaria's gross domestic product (GDP) increased by 4.2% on an annual basis, according to preliminary data from the National Statistical Institute (NSI), compared to a decline of -4.4% in 2020. In 2021 the EU economy increased by 5.3% compared to the previous year, and that of the euro area – also by 5.3%. The Bulgarian economy is projected to return to its level from 2019 in 2023, supported by increased investment financed by the EU Fund for Recovery and Resilience. Our forecast for GDP growth is 2.8% for 2022 and 3.5% for 2023-2024 due to the low base of 2021, as well as due to the low vaccination rate and the difficult predictability of the economic development after the war in Ukraine.

At the same time, against a background of further improvement in the labor market with a harmonized unemployment rate of 4.9% in December 2021 and 4.8% registered unemployment in December 2021, private consumption is expected to continue to rise, but at a slower pace than observed in 2021. Our forecast for registered unemployment is at levels of 4.8% for 2022 and 4.6% for 2023 - 2024.

Incomes will rise slightly, but mainly because the government is raising public sector wages and raising the minimum wage and social security contributions. The high growth of inflation is a serious concern for the costs of Bulgarians. Inflation in Bulgaria increased in December 2021 to 7.8% and to 6.6% for the Harmonized CPI. In December 2021 the average inflation reported 3.3% and 2.8% harmonized average annual inflation. This high value resulted from the combined impact of rising food prices, energy, and increased domestic demand, which affects core inflation. The increase in prices is expected to gradually normalized in the end of 2022 due to the elimination of the impact of core effects and the average annual Harmonized inflation is expected to be at 5.5%.

In 2021, Bulgaria continued to live and work in the conditions of the third and fourth waves of the pandemic, with an extremely low vaccination rate. The budget deficit is projected to remain broadly stable, at 3.2% by the end of 2021 and 4.5% of GDP in 2022, amid increased EU, including Recovery and Resilience Facility (RRF) grants and stronger revenues from taxes. Against the background of the ongoing economic recovery, the budget is expected to cover funds for higher social spending (including pensions) and public investment.

In 2021, the banking sector in Bulgaria operates in conditions of reduced economic activity affected by the COVID-19 pandemic. The latest BNB public data on banks have shown that banks' activity trend was moderate. This does not mean that the stability of the sector is affected. Bulgarian banks continued to have indicators that exceed EU requirements.

According to BNB data, as of the end of December 2021, the assets of the banking system have increased to an impressive BGN 135.4 billion. Loans to non-financial corporations continued to grow by 5.9% on an annual basis to BGN 40.3 billion, as well as to loans to households (by 13.9% on an annual basis to BGN 29.5 billion). The unfolding of the crisis continues to increase savings in banks. The total volume of customer deposits increased by 8.6% on an annual basis to BGN 109.4 billion. Households have entrusted the management of banks with BGN 68.1 billion, and non-financial enterprises with BGN 34.4 billion.

## 2. THE ENVIRONMENT WE OPERATE (CONTINUED)

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

The net profit of the banking system as of December 2021 amounts to BGN 1 415.9 million, by 97.6% more than the reported for the same period of 2020. The financial result of the sector is influenced by the incurred expenses for impairments and accrued provisions, the dynamics of the credit activity, the lower revenues from fees and commissions, the low interest rates, the management of the operating expenses and the quality of the loan portfolio. Some one-off effects on individual banks, such as dividends received from subsidiaries, a positive write-off of financial assets and liabilities, currency differences, higher impairment charges and provisions, also affect the financial performance of the system.

Under COVID-19, banks achieve capital ratios that are well above regulatory requirements. The capital ratios of the banking system remained at levels considerably above the minimum regulatory requirements and the required capital buffers. As of 31 December 2021, the Common Equity Tier 1, Tier 1 and total capital adequacy ratios were 21.66%, 22.04% and 22.62%, respectively. Effective from 28 June 2021, a regulatory requirement of minimum 3.0% of Tier 1 capital applies to the leverage ratio<sup>4</sup>. As of 31 December 2021, the leverage ratio (using a 'fully phased-in' definition of Tier 1 capital) stood at 10.50%, more than three times the minimum requirement.

Despite the concerns, it turned out that the total volume of non-performing loans according to the latest data as of the end of December 2021 is 6.0% and continued to report small decline. It is expected that this trend will continue despite the moratoriums on loan payments due to COVID-19, with a possible moderate deterioration after the end of the moratorium on loan payments.

### 2.2. COMPETITION AND TECHNOLOGICAL CHANGE

Banks have been conservative and slow to innovate, but that has changed in recent years, especially with the 2020 pandemic. Banks that want to remain important in the future and create sustainable returns for their shareholders will need to be successful in several ways. „**Kate**“ **digital assistant** developed by United Bulgarian Bank (UBB), is one such innovation that will help the bank retain its customers and attract new ones.

UBB wants to go in the direction that our customers want to go. The point is to stay important to our customers. In addition to offering them digital services through the mobile application, we are developing "**Kate**" - "**Alexa**" of the banks - a digital assistant that will be available to our customers. The assistant combines three technologies. These are digitalization of our products along with data analysis, artificial intelligence and chat bots. „Kate“ is up and running, she'll be able to reach you on the phone - in writing or in person - to tell you, "We see you're paying a certain amount of money for your car insurance - we think we can offer you something better." This service will be offered to customers only if they give permission to use their data.

In a similar way - as they have access to all available information - banks could in the future offer you to find a cheaper electricity supplier. This has nothing to do with banks, but with electricity. But we have the data and we know our customers, so we can offer you such a product. These are the so-called "**services beyond banking**". The bank will strive to take advantage of these new business resources as a source of income, become more efficient and work to reduce costs. Both goals can be achieved by automating processes and implementing artificial intelligence. This will lead to the creation of new business models - for example, „services beyond banking“. This means continuing to offer important customer services based on phone banking applications, at least for a modern bank.

## 2. THE ENVIRONMENT WE OPERATE (CONTINUED)

### 2.2. COMPETITION AND TECHNOLOGICAL CHANGE (CONTINUED)

The partnership between banks and fintech companies, in which banks adopt decisions from the fintech sector, is an important path to the future. We have a large customer base and bank permits - many fintech companies do not yet have full banking licenses - and they have the solutions. Creating ecosystems with fintech companies is one way for banks to remain relevant. This also means creating services that are not directly related to the banking sector.

For their part, large technology companies are trying to provide universal solutions to their customers, and at the end of this chain there is a payment system. Technology giants are active in the field of payments, but do not want to become banks. The first reason is banking regulations. The second factor is profitability - if you compare the profitability of banks and Big Tech, they are completely different. Here, too, we can work together, especially in the field of fintech.

In 2021, the challenges facing the banking sector are many. Bankers and the banking industry operate in an environment of very low interest rates, which puts revenue under pressure. We live in an environment of increasing digitalisation and innovation, which requires huge investments, and there is an accumulation of too many banks. Adding to the coronavirus pandemic, the biggest challenge is figuring out how to partner best with our customers because our customers have changed, too. The time of intensive technological changes in the name of our clients is underway.

### 2.3. REGULATION

#### 2.3.1. OVERVIEW OF LEGAL FRAMEWORK

The absence of an active Parliament through most of the year, after two unsuccessful votes in a row, clarifies the lack of an intensive legislative amendments; however, apart from ordinary legislative update there is a **numerous redraft of secondary banking legislation** aiming to harmonize and transpose best European practices.

UBB continues to **follow up on all legislative changes on a daily basis**, including those related to the application of PSD2, by using an effective internal model for notification of the respective bank unit when relevant legislative amendments are identified.

The amendments in the **Credit Institution Act** elaborated on the interaction between the BNB and the ECB, clarified the supervisory activities and introduced measures for the implementation of the securitization under **Regulation (EU) 2017/2402** of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 and Regulation 468/2014.

The changes in the **Law on Rehabilitation and Restructuring of Credit Institutions and Investment Intermediaries** introduced the principles of **Directive 2019/879** to ensure that institutions have sufficient capacity to cover losses and recapitalizations during and immediately after the restructuring, and they can continue to perform their critical functions without compromising public finances and the financial stability.

The regular amendment into the **Competition Protection Act** and the **Measures against Money Laundering Act** aimed to bring the national legislation in line with the EU requirements.

The amendments in the **Consumer Protection Act** introduced additional provisions regarding the digital content, digital services and selling of goods.



## 2. THE ENVIRONMENT WE OPERATE (CONTINUED)

### 2.3. REGULATION (CONTINUED)

#### 2.3.1. OVERVIEW OF LEGAL FRAMEWORK (CONTINUED)

There is a **bunch of a new and amended secondary legislation** which is already acknowledged and complied with by the bank. Such secondary legislation relates, *amongst others*, to the modernization of the regulation of payment and prepaid cards, the changes in the RINGs system, the capital buffers, the terms for their estimation and update, the remunerations in bank, the processes for approval of financial holding companies, including mixed financial holding, requirements for operating as an investment intermediary, Investment Company, broker of finance instruments and investment consultants, new requirements for the activity of the central securities depositories, the central securities register and other persons carrying out activities related to the settlement of securities, approvals for members of management boards of credit institutions, imposing requirements for the execution of their duties, disclosure of information in public offering of securities and admission of securities to trading on a regulated market and other formalities applied in the banking sector.

The bank is aware of the obligations of credit institutions **to apply standardized methodology and internal rules for the identification and assessment of risks** related to interest changes which may impact the economic value of the capital introduces by the amendments in **Ordinance № 7 of 2014 for the Organization and Management of Risks in Banks**.

The **de-minimis reserves of the banks are reduced** by the change of the definition for **the excess reserves** with the amendments in the **Ordinance 21 dated 26 November 2015 for the Obligatory Minimal Reserves that have to be maintained by the Banks with Bulgarian National Bank**.

The bank also complies with the amendments to **Ordinance № 16 of March 29, 2018 for issuing licenses and approvals, for entry in the register under Art. 19 of the Law on Payment Services and Payment Systems**, in particular the requirements for communication of information on the funds to be protected on the special security accounts of payment service users.

Part of the bank's activity falls within the scope of the **Taxonomy Regulation package** and associated delegated acts related to sustainable economic activities. To ensure compliance, internal dedicated teams are in charge to follow up on the developing law and re-assessed the effective framework to ensure the bank is not breaching the Taxonomy disclosures, the reporting requirements; and has aligned its practice to prevent "greenwashing". The teams keep a close eye on the pending legislation in the sector, such as the newly proposed Corporate Sustainability Reporting Directive, EU Ecolabel for financial products, Human Rights Due Diligence Directive and other legislative initiatives.

The **Constitutional Court** by its Court Decision № 8 dated 27 May 2021 under c.c. № 9/2020 suspended, as anti-constitutional, certain provisions of the Bank Insolvency Act which by means of a retroactive effect delate registrations with public registries. Notwithstanding that the case is constituted with regards to the filling in the insolvency estate of CCB, **the court decision is an example for constitutional defence of the principles of equality and inviolability of the private ownership**, the principle for plain and clear text of laws which prescribes understandable way of behaviour and shows intolerance of the court to any kind of destruction of trust in public registries, such as the Property Registry, the Central Registry for Special Pledges created to secure the civil relations.

The amendments of the **Civil Procedure Code** that introduced the so called electronic justice, entered into force on 30.06.2021. As of this date all court notifications to banks, other financial institutions (as leasing and factoring companies) and insurance companies shall be made in electronic way to e-mail address. The implementation of the amendments; however, is practically still impossible since the so called **Single Portal for "E-justice"(SPE-justice)**, which is the basis of the reform, is still at **"work in progress"** stage and it is unclear when it will be finished.

## 2. THE ENVIRONMENT WE OPERATE (CONTINUED)

### 2.3. REGULATION (CONTINUED)

#### 2.3.1. OVERVIEW OF LEGAL FRAMEWORK (CONTINUED)

UBB participates in official discussions with public authorities to check what is agreed to be the legal notification method until completion of the **SPE-justice** and keeps a close eye on recent development of the precedents related to the matter given the material importance for proper implementation of law with regards to electronic notification in the litigation process.

UBB keeps a close eye on the development of the **National Plan for introduction of the EURO** which draft was published in July, 2021.

**UBB continues using COVID-19 as an opportunity to optimize its digital experience** and secure a long-term digitalization. To ensure strict compliance the bank has a dedicated team to regularly check for relevant legislative amendments and precedents given the promising claims of the new Council of Ministers to secure digitalization in all industry.

Our team participates in working groups at sector organizations where we analyse draft texts, provide revisions and give legislative proposals.

We regularly organise training to business on legal issues and workshops with the Legal Department to exchange experience, legal brain-storming and unification of the practice **in line with the adopted policy for responsible behaviour and reduction of the risk profile of the bank.**

#### 2.3.2. EU TAXONOMY REGULATION

The **Taxonomy Regulation** establishes an EU-wide framework according to which investors and businesses can assess whether certain economic activities are environmentally sustainable.

There are four checks to be performed in order to label an economic activity as environmentally sustainable. The activity must:

- Be a relevant activity, i.e. the activity is on the list of activities which are considered as most relevant for achieving the environmental goals defined by Europe. The relevant activities are called taxonomy-eligible activities and are described in Delegated Acts;
- Contribute substantially to at least one of the environmental objectives and comply with the Technical Screening Criteria for substantial contribution as described in delegated acts;
- Do no significant harm to any of the other environmental objectives and comply with the Technical Screening Criteria for “do no significant harm” as described in delegated acts;
- Be carried out in compliance with minimum social and governance safeguards.

An economic activity which passes the four checks, is called a taxonomy-aligned economic activity.

We explicitly point out that, if we use the terms “green” or “sustainable” elsewhere in this annual report, we by no means suggest that what is described, is already (completely) aligned with the EU Taxonomy.

Six environmental objectives are laid out in the **Taxonomy Regulation**:

- Climate change mitigation (further CCM);
- Climate change adaptation (further CCA);
- Sustainable use and protection of water and marine resources;
- Transition to a circular economy;
- Pollution prevention and control;
- Protection and restoration of biodiversity and ecosystems.

## **2. THE ENVIRONMENT WE OPERATE (CONTINUED)**

### **2.3. REGULATION (CONTINUED)**

#### **2.3.2. EU TAXOMY REGULATION (CONTINUED)**

The initial focus of the European Commission has been on CCM and CCA. The rules for the other objectives will be adopted in the future.

Article 8 of the Taxonomy Regulation requires financial and non-financial undertakings covered by the Non-Financial Reporting Directive (NFRD) to include information in their non-financial information statements on how, and to what extent, their activities are associated with environmentally sustainable economic activities. The Disclosure Delegated Act specifies the content and presentation of the information to be disclosed.

In the Disclosure Delegated Act a phased approach is introduced. From 1 January 2022 on, until 31 December 2023, financial undertakings shall disclose only on taxonomy eligibility for CCM and for CCA. As of 1 January 2024, key performance indicators on taxonomy alignment regarding all environmental objectives shall be disclosed.

The Bank is a large undertaking that is required to publish non-financial information under the NFRD, and is as such also subject to the disclosure obligations described in the Disclosure Delegated Act. Being a financial group, UBB performs activities of a credit institution. This entails the obligation to disclose the required information for those undertakings as described in the Disclosure Delegated Act, which however in relation to taxonomy eligibility for 2021 is presented on consolidated basis by KBC Group.

The following notes shall be taken into consideration:

- The Disclosure Delegated Act needs still further clarifications. These include, but are not limited to: definitions are not always provided, it is not specified how to deal with the reporting of a group containing different types of financial undertakings, there are no specific templates for the eligibility reporting. Hence, we had to make a number of interpretations and assumptions. Where appropriate such assumptions are transparently disclosed in what follows.
- In this first reporting, data availability is a challenge. It is prescribed in Article 8.4 of the Disclosure Delegated Act that financial undertakings shall use the most recently available data of their counterparties. However, at this moment in time, our (corporate) counterparties have not yet disclosed such information, as their disclosure obligation enters into force simultaneously with the disclosure obligation for financial undertakings. This means that the mandatory eligibility percentage of UBB as credit institution is 0% for these counterparties.

The material difficulties for assessing compliance with the Taxonomy Regulation are acknowledged by the legislator, and are one of the reasons why a phased approach for disclosures was introduced. Moreover the taxonomy-related reporting under the Disclosure Delegated Act cannot be considered as standalone reporting, but fits in wider European initiatives on sustainable finance, which are still ongoing (such as the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR)). For all these purposes a coherent and relevant set of sustainability data will gradually need to be built up by companies. As soon as information becomes available from our counterparties, the Bank will take it up in its mandatory eligibility percentages, and voluntary eligibility percentages will be disclosed on top of the mandatory percentage. These voluntary percentages contain counterparties which have not yet disclosed or confirmed their information yet, and for which UBB uses approximations.

## **2. THE ENVIRONMENT WE OPERATE (CONTINUED)**

### **2.3. REGULATION (CONTINUED)**

#### **2.3.2. EU TAXOMY REGULATION (CONTINUED)**

In relation to taxonomy prudential requirements the mandatory eligibility ratio of UBB for 2021 is presented in the consolidated financial statements of KBC Group. Reference is made to the Annual Report of KBC Group for 2021.

The mandatory eligibility percentage of KBC for the consolidated assets of the credit institutions (UBB is included) is 20,29% for CCM and 0% for CCA. The CCM percentage includes only mortgages to households.

The voluntary eligibility percentage of KBC for the consolidated assets of the credit institutions (UBB is included) is 20,33% for CCM and 0,08% for CCA.

Following assumptions were made to calculate these voluntary percentages:

- The following counterparties are taken into account: financial corporations, non-financial corporations subject to NFRD disclosure obligations, households and local governments.
- In order to define whether an exposure is taxonomy-eligible or not, we look at the main NACE code of the counterparty. If that NACE code is described in the Climate Delegated Act, the linked exposure is considered taxonomy-eligible. If the NACE code is not available, or not at the level required, then the exposure is considered to be non-eligible.
- In order to define whether a counterparty is subject to NFRD disclosure obligations or not, we look at criteria as defined in the NFRD as transposed at the local level by the Accounting Act: number of FTE, balance sheet total and turnover of our counterparty.

#### **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 analyze 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 EMPLOYEES, CAPITAL NETWORK AND RELATIONSHIPS**

The past 2021 has strengthened the key role of our employees as the most valuable resource for the organization and its prosperity. The main goal of the activities related to the management of all human capitals was to help control the strategic goals of the company, while providing temporary and flexible solutions in response to external market factors. We build our HR policy on the corporate culture PEARL+.

The efforts towards the employer brand this year were primarily focused on the employees, internally, through a number of initiatives aimed at increasing the engagement and promotion of UBB as a preferred employer for the external audience. Employees engagement surveys are part of our corporate culture. They are conducted twice per year, measuring the overall employees' satisfaction and commitment to the company and its strategies. The received feedback is most valued and results in the implementation of concrete improving actions on work environment and other HR "hot" topics.



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

The close contacts with junior profiles, potential interns or employees of the organization, continues to give a better understanding of the new generation and strengthen our position as one of their career choices. With the cooperation of the Retail Banking and Digital Sales Directorate the Bank participated in exclusive events with the leading universities in the country (Welcome Week for 1st year students of Sofia University - Faculty of Economics, Career exhibition Career at UNWE Webinar for student products and internship opportunities with Plovdiv University "Paisii Hilendarski").

The Bank provides various opportunities for career development, training systems, programs for managers. We understand that good managers are essential for employees to do their best, which is why we focus on new mentoring programs, participation in meetings and trainings, programs for newly hired employees, developing leadership skills and competencies.

The effective partnership with Sofia University "St. Kliment Ohridski" was renewed and resulted in the establishment of the 1st edition of KBC Bulgaria ESG Academy. The main focus of the Academy is to provide employees, customers and society with high quality knowledge, services and appropriate solutions that are adapted to change, aimed at sustainability and risk management. The expected added value of these 10 digital and interactive courses, lasting three months, is to contribute to the goals of the Paris Climate Agreement, as well as to prepare the Group companies in Bulgaria for the forthcoming EU regulations by integrating the principles of sustainable development financing.

As a result, in 2021 more than 20 young professionals with various profiles successfully completed the internship program of UBB, some of which continued to grow in the company on permanent positions.

Effective introduction to the work process and the creation of organizational affiliation are phenomena that acquire a different dimension in the times of the digital work environment caused by COVID-19. The feedback from our new colleagues is for their current attitudes, impressions and ideas for process improvements, followed by the highest hierarchical level. The interactive digital session with the Chief Executive Officer of UBB - "Chat with Peter" appeared as a successful pilot format with high potential to be continued and further developed.

In 2021 we continued to provide various learning opportunities, aiming at career development and upgrading the professional expertise of our employees, as due to the COVID-19 pandemic all trainings were conducted virtually or as self-study e-modules.

UBB employees participated in trainings related to Process Management, Project Management, Presentation Skills and a number of qualification and certification trainings in the field of information technology and specialized trainings in the banking sector, provided by the International Banking Institute, as well as internal virtual trainings related to novelties in the products, processes and systems of the Bank.

2021 was a second consecutive successful year for the Mentoring Program to support the effective onboarding of the new members of the UBB family in the "Branch Network" throughout the country.

Together with the active support of the Human Resources Management Directorate, each of the 139 newly appointed colleagues was trained according to a unified and digitalized approach, located in the e-learning platform Moodle. An individual plan for each position supports the successful involvement in the work dynamics for our new colleagues. Due to the added value and proven effectiveness the Mentoring Program was launched also for the SME segment. Parallel specialized program was developed for the new colleagues in the directorate, to help them in their smooth entrance and training in the organizational processes.

Understanding that good managers are the basis for employees to do their best in the professional field, focused our efforts in development and upgrading the leadership and management skills and competencies.

For our experienced managers we have launched several new training and development projects tailored to the specific audience, e.g.: 360 ° feedback; Emotional Intelligence training; Workshops to upgrade motivation and performance management skills; Mentoring skills trainings; Engaging Leaders Program; Individual coaching projects, depending on the needs and others.

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

We also continued the successful programs such as KBC Bulgaria Academy for Managers, specially developed for colleagues who take on roles related to people management for the first time.

Last but not least, in 2021 we enriched our e-learning library with new modules on hot topics - from company's strategic priorities such as Understanding customer needs, Data management, Sustainability and climate change, Responsible behavior, through modules to upgrade personal skills such as stress management skills, etc.

#### *Employees split per type of employment as of 31.12.2021:*

<b>Full-time</b>	<b>99.8%</b>
<b>Part-time</b>	<b>0.2%</b>

Remunerations in UBB are determined, based on work on an 8-hour business day for a 5-day working week. Despite the difficulties, caused by the pandemic situation in the country, the Bank continued in 2021 to care for the development and retention of employees, by providing them with the necessary professional training and remuneration, consistent with their duties, professional responsibilities and performance. The Bank provides various financial incentives to employees for high performance and good results at specific time intervals. With care for our employees, UBB provides additional health insurance, Life Risk Insurance, compensation related to COVID-19 for the “front line” employees, supplementary pension insurance and different social payments for personal events (marriage, childbirth etc.).

During this second subsequent difficult year, the KBC Group Executive committee granted to the employees a special reward payment, as recognition for their exceptional efforts facing the unprecedented Covid-19 challenge.

In its efforts to constantly improve effectiveness UBB assesses staff performance and competencies on annual basis. The performance evaluation process helps the determination of the role and contribution of the individual employee to the results achieved and contributes the subsequent development of professional qualifications and competencies.

The Trade Union of the Bank Employees and Workers at UBB (TUBEW) is registered at the court as a non-profit organization, established to regulate the employment and social relations between the employees of UBB and their Employer. There are excellent relations with the Trade Union and full cooperation and in the pandemic-related conditions in the country, we continue maintain weekly communication with the Trade Union in order to exchange latest news and ideas for improving the work environment. At the end of 2021 negotiations were held for the signing of New Collective Labor Agreement for 2022.

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

#### **4.1. CORNERSTONES OF OUR STRATEGY**

UBB builds its strategy on the solid foundations of the group corporate strategy "Next Level", enriched with the local market and economy flavor and, of course, with clear focus on our customers - here, now and looking forward. Our main focus remains on:

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

### **4.1. CORNERSTONES OF OUR STRATEGY (CONTINUED)**

- Excellent customer experience with accelerated digitalization of products and services, high quality advice and genuine partnership approach in the name of the new digital - with authentic human touch
- Portfolio versatility, encompassing banking, insurance, leasing, pension-insurance products and services, as well as services beyond pure banking (such as the ability to purchase e-vignettes, for example) - all brought together through a comprehensive, fully transparent and efficient offering and service
- Responsible attitude towards society and local economy - as part of the KBC Group UBB professes respect for local specifics - both market and customers - and constantly strives to provide the most effective cross-section between global innovations and local expectations, in line with the local and supranational regulatory framework.
- Sustainability and growth - Driven by the long-term approach in every relationship with our clients, we maintain a high risk-awareness culture and clear responsibility regarding our role in the development of the local economy. It is for this reason, and with a vision of a greener future, that we are expanding our portfolio and initiatives to support effective market transformation towards a more sustainable and environmentally friendly business model.

In each of our endeavors, innovation is intertwined with our responsibility as a financial institution, and in 2021, we proved that these are the basis of our corporate DNA. By relying on active digitalization of products for our individual and business customers, with careful listening to their needs, a keen sense of their expectations and an exceptional care for their security, we plan to continue building on this synergy in 2022, establishing UBB as natural and sustainable Next Level financial partner.

### **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.

Corporate Sustainability is an integral part of KBC Group overall business strategy, which is anchored in our day-to-day activities. KBC Sustainability strategy, which is geared towards the local economy and society, consists of three cornerstones: encouraging responsible behavior on the part of all our employees, increasing our positive impact on society and limiting any adverse social impact we might have.

As a basis of our business strategy and targets KBC group put our commitment to the Collective Commitment to Climate Action (CCCA), the Paris Agreement to keep global warming below 2°C while striving for a target of 1.5°C as well as the EU regulatory package for transition to more sustainable and climate resilient economy.

The implementation of KBC Group Corporate Sustainability Strategy is governed by International Sustainability Board (ISB) Chaired by the Group CEO and comprises of the group CFO, senior managers of all business units and core countries and KBC Sustainability General Manager.

Peter Roebben, Country manager KBC Bulgaria is member of ISB and has the overall responsibility for the Sustainability activities at KBC Bulgaria. ISB reports to the Group Executive Committee and it to the Group Board of Directors. KBC Bulgaria Corporate Sustainability Committee chaired by Mr. Roebben governs the corporate sustainability activities.

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

### **4.3. OUR ROLE IN THE SOCIETY: TO COMPLY WITH THE SOCIETY'S EXPECTATIONS**

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 implemented various activities aimed at reducing our negative impact on the environment.

We can be really resilient if we maintain the confidence of society in us. We achieve this by considering 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 continued to follow a pre-prepared and approved annual plan and has supported a number of initiatives in the field of Financial Literacy in 2021.



## **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)**

Our efforts were also focused on digitizing the game "All the money" developed by UBB. For this purpose, we have created an online platform with an interesting and fun interface, where the children's audience has the opportunity to gain knowledge and skills for personal finance planning and responsible behavior when interacting with banks and credit institutions.

Last year, UBB reached the audience of students in Bulgaria, offering them a student loan with a guaranteed limit under an agreement with the Ministry of Education. The product launched in mid-August 2021, and was supported by a digital campaign as well as presentation activities with selected universities.

As a member of the UN Global Compact for another year, we joined the initiative "I am proud of the work of my parents" - a project that introduces children to a variety of professions. The last edition of the initiative was held entirely online. The participation of KBC Group in Bulgaria in the project is a kind of way to express gratitude to our employees, giving them the opportunity to show and tell about their skills and their business daily lives in front of the most important audience - their children.

This year the colleagues from UBB Pension Insurance also joined the initiative, sharing with the audience for the first time the main topics, tasks and responsibilities in the field of pension insurance.

#### **Promoting Healthy lifestyle**

The COVID-19 pandemic completely changed the form in which we accomplish cause related projects for KBC Group. Driven by the desire to take care of lives and health of our employees in the past 2021, we conducted entirely online - Easter and Christmas charity bazaars. The funds raised after the sale of children's drawings and calendars were donated to the „United for Charity“ association.

For another year, UBB also supported the "Bulgarian Christmas" - an initiative that aims to help and solve important public problems related to children's health and to support their treatment.

The theme of this year's "Bulgarian Christmas" is "Give hope to a child in need." Supporting children in need of emergency care and intensive care. Every child, even completely healthy, in different circumstances / accident, serious accident /, may find themselves in a situation leading to a critical health condition requiring resuscitation and intensive care. The complex approach and the use of high-tech modern equipment in the treatment of these children significantly improves their condition and reduces the incidence of severe disability or loss of precious children's lives.

#### **Promoting entrepreneurship**

UBB continued to support the development of entrepreneurship in Bulgaria, thanks to successful partnerships with the European Investment Bank, European Investment Fund, Bulgarian Development Bank, National Guarantee Fund, Fund Manager of Financial Instruments in Bulgaria, European Bank for Reconstruction and Development, Council of Europe Development Bank, International Finance Corporation and Bulgarian Export Insurance Agency.

Credits under programs like COSME, COSME COVID-19, COSME Digitalization Pilot, InnovFin, JEREMIE and others were successfully offered.

In 2021, UBB also offered a specially developed product for freelancers. Package services for freelancers include working capital loan with guarantee instruments, investment loans and overdraft. The working capital loan from UBB is granted under relaxed collateral conditions when using guarantee instruments. Business clients have the opportunity to receive a high amount of financing without material security up to BGN 150,000. Other advantages offered by the product are fast approval procedure, competitive price conditions and long repayment period.

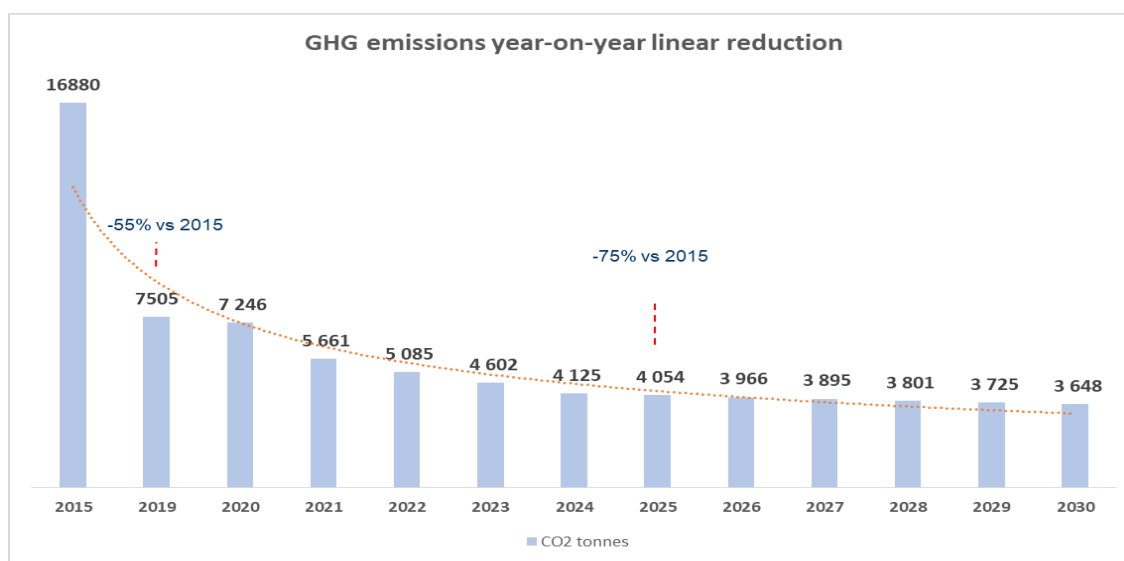
## 4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)

### 4.3. OUR ROLE IN THE SOCIETY: TO COMPLY WITH THE SOCIETY'S EXPECTATIONS (CONTINUED)

We continued to develop our partnership with Bulgarian municipalities in the following areas: finding new investment opportunities in the region; support for local business development; participation in initiatives relevant and important to the local community.

#### Protecting Environment

Our short-term target is to reduce the GHG emissions with -75% to 2025 vs 2015 and to continue reducing the carbon footprint till reaching -100% by 2050.



The KBC Group in Bulgaria should focus its reduction efforts on the most impacting activities – these are purchased electricity and travel:

- **Electricity:**

- Gradual increase of green electricity shares to 80% by 2025 and 100% by 2030.
- Solar Power Plants- to install SPP on every 2 years. This means that we will have a total of 4 SPP installed by the end of 2025.

- **Travel:**

- Gradual replacement of own car fleet by hybrid/electric cars – by the end of 2025 we foreseen 70% of the current car fleet of 200 cars to be more environmentally friendly
- Reduction of business trips in the country and abroad.

As of 2021 the total GHG emissions for KBC Group Bulgaria are 5 092\* (in process of validating by Vinçotte, an external verification company) tones CO<sub>2</sub>. We have managed to achieve even greater reduction than the set targets with total of -70% vs 2015. Moreover, KBC Group will purchase GOO on group level to reduce the emissions from no- renewable electricity consumption, so the tones CO<sub>2</sub> for KBC Group Bulgaria will decrease with additional 1 561 tones CO<sub>2</sub>.

### 4.4. FOCUS ON RESPONSIBLE AND ETHICAL BEHAVIOR

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.

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

##### **4.4. FOCUS ON RESPONSIBLE AND ETHICAL BEHAVIOR (CONTINUED)**

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 the area of responsible behavior and so related sustainable finance, in 2021, focused trainings for the Bank's staff were conducted in order to uphold a decent level of awareness on these topics. Both trainings were followed by a survey among the staff in order the degree of staff awareness of the importance of the topic to be assessed, as well as the incorporation of the principles of responsible and ethical behavior into daily operations.

Every quarter, the Compliance Departments in KBC Group issue a compliance bulletin, which informs employees about the risks associated with inappropriate behavior (Conduct risk), ethics and fraud, personal data protection and more. In order to better understand the topics, specific situations are described and examples from practice are given.

Already a tradition, the Fraud Information Week was held in 2021 - an initiative held simultaneously in all KBC companies on the week of October 11-15, which presents the importance of the topic "fraud and the fight against it" in a non-traditional, fun and accessible way, including non-standard videos, comics and case studies.

##### **4.5. FOCUS ON CLIMATE CHANGE**

UBB extend and further continue its efforts in the managing and oversee climate-related risks in the Group's portfolio in Bulgaria and support its customers in their adaptation to climate through the Program for Sustainable Finance initiated in 2019 and substantially expanded in 2021 following the Group strategy and KBC Corporate Sustainability Program.

Two years after signing the UN's Collective Commitment to Climate Action (CCCA), we have made substantial progress in achieving of our objectives. Through this commitment UBB set up targets for substantial decreasing of the share of most carbon-intensive industrial sectors in our businesses and product lines to further integrate climate-related risks, opportunities and targets into the strategy of these sectors. UBB also put clear limit the energy generation from fossil fuels in our energy portfolio.

The Program for sustainable finance is govern by **Sustainable Finance Committee ("GREEN-COM")**, which from this year is subcommittee of the KBC Bulgaria Corporate Sustainability Committee has four main pillars: Data collection, Metrics Validation, Green products and Green asset validation.

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

##### 4.5. FOCUS ON CLIMATE CHANGE (CONTINUED)

In 2021 we continued to improve the Program for Sustainable financing in the following direction:

- The White Papers were approved as policy documents presenting key trends related to sustainability in the sectors and segments mostly affected by climate change, in last year we managed to gather sustainable finance-related metrics which could help us defining the level of sustainable practices in our finances activities.
- Collection of data related to the sustainability characteristics of business activities was ongoing through the year. The data collected will provide an adequate basis to set ambitious medium- and long-term targets towards reducing the carbon share of the Bank's loan portfolio.

##### ➤ Risk management

- UBB has adopted the following policies in relation with the integration of the measurement of the environmental, social or government risk (ESG risk) in the regular risk measurement activity in credit transactions:

1. "Annex 10 to the Credit Policy - Standards for Credit Risk in granting loans to Corporate and SME clients" - with included standards for ESG assessment.
2. Instructions for credit process - with included guidelines for performing ESG assessment.
3. Guidelines for ESG assessment adopted by KBC and valid for the whole Group.

- From July, in the process of approving of new loans and reviews of existing exposures, an assessment of ESG factors is mandatory - an assessment of the risks associated with ESG factors for the financial condition of borrowers, and in particular, the potential impact of environmental factors and climate change (ESG Assessment according to KBC guidelines).

- The following KBC group policies were adopted as annexes of UBB Credit Policy:

- Credit Risk Standards on Sustainable and Responsible Lending
- Energy credit policy

##### ➤ Customer engagement

- The bank plays active role in customer engagement process, as we aim to approach customer proactively and to express clearly our support in their transition to more sustainable business practices. Thus, we do not only gather the necessary data, but also collect information on the issues and hurdles which could be faced by our clients, in order to be able to provide them with suitable solutions or products.

- In order to be able to be trustful partner for our clients, all entities of KBC Bulgaria deliver training to its employees on the climate change issues and sustainability. The relationship managers in corporate banking were additionally trained on the specific aspects in each industry sector. That helped our employees to understand better the needs and opportunities in each sector to achieve decarbonatization and more sustainable products or services.

- In addition to the mandatory ESG assessment of Corporate and SME clients acting in high-risk sectors and above certain thresholds, in 2021 more than 90% of large corporate clients were contacted. In Energy and Commercial Real Estates sectors all clients were contacted and relevant ESG data was collected.

- As feedback from our contacts with customers it could be concluded that overall reaction is appreciation of our efforts and interest in the upcoming solutions. As one of the most prominent results from our dialog could be highlighted that one of our large clients – public company published new corporate sustainability strategy and pledged to investors' replacement of energy generation based on coal.



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

### 4.5. FOCUS ON CLIMATE CHANGE (CONTINUED)

#### ➤ Green product development

- By the end of 2020 UBB pledged maintaining renewable energy share in the Bank energy portfolio more than 65% and reaching up to EUR 100 M by end of 2024. Only in 2021 the bank financed new renewable energy projects for more than 40 MW, with the Bank's renewable energy granted loans reaching by the end of the year EUR 83 M, or 69% of the total energy book. Reflecting on the progress achieved and the increasing ambition levels towards the transition to low carbon economy, in the 2021 update of the three-year financial plan (APC) the target for renewable energy portfolio by the end of 2024 was further increased to EUR 200 M.
  - UBB new investment loan for photovoltaic for Corporate and SME companies will be available on the market by the end of 2021.
  - UBB is utilizing the Sustainable Cities Fund financial instrument with a budget of BGN 350 million. The program enables the active financing of public and private entities whose projects aim to further the sustainable development in cities across Sofia and South Bulgaria. UBB has already financed over 60 projects totaling almost BGN 229 million in different areas of sustainable development including energy efficiency, urban development, cultural heritage and others. The program includes also a specific retail product aimed at financing energy efficiency for private households.
  - UBB Interlease has a green product under the COSME framework that is aimed specifically at financing the acquisition of electric/hybrid vehicles and equipment.
  - Another important initiatives planned to be roll out in the beginning of next year are: the new mortgage loan for energy-efficient homes and joint product for electric cars of Interlease and DZI.
- All products are structured to be aligned at the most extend with the criteria set in the EU Taxonomy for environmentally sustainable activities

### 4.6. MEASURES

#### *Complaints management*

The process of receiving and handling complaints and providing legal protection against human rights violations. Any complaint received at UBB is registered and sent for verification analysis and opinion to the relevant competent unit. All 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 Business Directorate and 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 2021 at UBB is 5 347 (2020: 5 673) which are less than 326 compared to the previous year.

#### **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 Group Compliance Rule No. 19 (Anti-Corruption Program) of the KBC Group.

#### *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:

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

### 4.6. MEASURES (CONTINUED)

#### *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 Bank organizes trainings to newcomers and refreshing trainings and tests to the personnel. The number of employees trained in 2021 is as follows:
  - Trainings for new employees on internal rules on ethics:
    - o Number of employees invited at training sessions – 290
    - o Number of employees who attended the trainings, including testing – 246
  - Training for whole bank staff on ethics and fraud risk management:
    - o Number of employees invited at training sessions – 2 612
    - o Number of employees who attended the trainings, including testing – 2 450
  - Training for whole bank staff on internal procedures, prohibiting provision of unacceptable services and assistance:
    - o Number of employees invited – 2 610
    - o Number of employees who passed the test – 2 368None was dismissed or was at suit for corruption in 2021.
- 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 (updated in 2021)
  - Policy on gifts, entertainment, donation and sponsorship
  - Whistle-blowing Rules (updated in 2021)
  - 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)

### 4.7. IMPORTANT NEW SUSTAINABILITY POLICIES

#### *Blacklist of companies and activities*

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

#### *Human rights*

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

#### *Controversial regimes*

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

#### *Arms-related activities*

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

#### *Project finance*

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

#### *Other socially sensitive sectors*

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

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

#### *Framework*

We set the bar high aiming to be the banker that puts its clients 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 appointed independent risk officers in all relevant parts of our organization

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 the Bank.

As a banking institution we are also exposed to the typical risks for our sector 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)

### 4.9. OUR ‘THREE LINES OF DEFENCE’ MODEL

The business operations side is responsible for managing its risks. As independent control functions the UBB Risk Management and Compliance and – for certain matters – Finance, Legal, Data Quality Management and Information Risk Security, constitute the second line of defense.

As independent third line of defense Internal Audit provides support to the Management Board, the Audit Committee and the Risk & Compliance Committee in monitoring the effectiveness and efficiency of the internal control and risk management system.

### 4.10. SECTOR – SPECIFIC RISKS

#### *Credit risk*

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

*Existence of a robust management framework*

*Recording impairment charges, taking risk-mitigating measures, optimizing 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, ‘greeks’ for products with options stress tests, open currency position monitoring, 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), NII simulation and stress testing, nominal amounts limit tracking for crucial indicators, open currency position in banking book monitoring, 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.*



**4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE (CONTINUED)**  
**4.10. SECTOR – SPECIFIC RISKS (CONTINUED)**

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



Christof De Mil  
Executive Director

Teodor Marinov  
Executive Director

Date: 05.04.2022

**SEPARATE AND CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Interest income		267 972	272 014	269 236	272 669
Interest expenses		(13 150)	(9 881)	(13 150)	(9 881)
<b>Net interest income</b>	4	<b>254 822</b>	<b>262 133</b>	<b>256 086</b>	<b>262 788</b>
Fee and commission income		161 847	137 982	166 704	142 145
Fee and commission expenses		(24 385)	(20 695)	(24 967)	(21 057)
<b>Net fee and commission income</b>	5	<b>137 462</b>	<b>117 287</b>	<b>141 737</b>	<b>121 088</b>
Dividend income		3 120	4 983	518	429
Net result from financial instruments at fair value through profit or loss	6	644	594	644	594
Net result from hedging derivatives	17	(115)	(15)	(115)	(15)
Net other income	7	4 366	5 229	5 981	6 169
<b>Total income</b>		<b>400 299</b>	<b>390 211</b>	<b>404 851</b>	<b>391 053</b>
<b>Operating expenses</b>	8	<b>(212 798)</b>	<b>(220 238)</b>	<b>(216 293)</b>	<b>(223 510)</b>
Staff expenses		(100 572)	(95 461)	(103 344)	(97 876)
General administrative expenses		(86 368)	(98 663)	(87 005)	(99 435)
Depreciation and amortization expenses		(25 858)	(26 114)	(25 944)	(26 199)
<b>Impairment expenses</b>	9	<b>2 714</b>	<b>(49 400)</b>	<b>2 589</b>	<b>(50 069)</b>
On financial assets at amortized cost and at fair value through OCI		451	(43 169)	326	(43 838)
On off-balance sheet commitment		4 438	(4 273)	4 438	(4 273)
On non-financial assets		(2 175)	(1 958)	(2 175)	(1 958)
Share in results of associated companies		-	-	270	380
<b>PROFIT BEFORE TAX</b>		<b>190 215</b>	<b>120 573</b>	<b>191 417</b>	<b>117 854</b>
Income tax expense	10	(19 101)	(11 769)	(19 472)	(11 926)
<b>PROFIT FOR THE YEAR</b>		<b>171 114</b>	<b>108 804</b>	<b>171 945</b>	<b>105 928</b>
UBB equity shareholders		171 114	108 804	171 945	105 934
Non-controlling interest		-	-	-	(6)

These separate and consolidated financial statements have been approved for issue by the Management Board on 05.04.2022 and signed by:

Christof De Mil  
Executive Director

Teodor Marinov  
Executive Director

In reference to the auditors' report:

Gergana Mihaylova  
Registered Auditor responsible for the audit



Mariy Apostolov  
Grant Thornton OOD

Pavel Pirinski  
Registered Auditor responsible for the audit



Lock Numan  
PricewaterhouseCoopers Audit OOD

Date: 08-04-2022

Date: 08-04-2022



# SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>PROFIT FOR THE YEAR</b>	<b>171 114</b>	<b>108 804</b>	<b>171 945</b>	<b>105 928</b>
<i>Other comprehensive income that may be recycled to profit or loss</i>				
Changes in the fair value of debt instruments at fair value through OCI	(16 217)	(6 083)	(16 217)	(6 083)
Gains/ losses reclassified through PL	88	(4 910)	88	(4 910)
<b>Other comprehensive (loss)/ income that may be recycled to profit or loss</b>	<b>(16 129)</b>	<b>(10 993)</b>	<b>(16 129)</b>	<b>(10 993)</b>
<i>Other comprehensive income that will not be recycled to profit or loss</i>				
Changes in the fair value of equity instruments at fair value through OCI, net of tax	603	4 170	603	4 170
Actuarial gains/(losses)	359	115	359	115
<b>Other comprehensive income that will not be reclassified subsequently to profit or loss</b>	<b>962</b>	<b>4 285</b>	<b>962</b>	<b>4 285</b>
<b>Other comprehensive income/(loss), net of taxes</b>	<b>(15 167)</b>	<b>(6 708)</b>	<b>(15 167)</b>	<b>(6 708)</b>
<b>Total comprehensive income for the year</b>	<b>155 947</b>	<b>102 096</b>	<b>156 778</b>	<b>99 220</b>
Attributable to UBB equity shareholders	155 947	102 096	156 778	99 226
Attributable to non-controlling interest	-	-	-	(6)

These separate and consolidated financial statements have been approved for issue by the Management Board on 05.04.2022 and signed by:

		
<b>Christof De Mil</b> CFO		<b>Teodor Marinov</b> Executive Director
In reference to the auditors' report:		
		
<b>Gergana Mihaylova</b> Registered Auditor responsible for the audit		<b>Mariy Apostolov</b> Grant Thornton OOD
		
<b>Pavel Piriski</b> Registered Auditor responsible for the audit		<b>Jock Yuman</b> PricewaterhouseCoopers Audit OOD
<b>Date: 08-04-2022</b>		<b>Date: 08-04-2022</b>



**SEPARATE AND CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION AS OF 31 DECEMBER 2021**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>ASSETS</b>					
Cash and cash balances with the Central Bank	11	2 162 436	1 635 776	2 162 436	1 635 776
Due from banks	12	2 113 168	940 818	2 113 168	940 818
Reverse repos with banks	12	445 637	586 708	445 637	586 708
Loans and advances to customers	13	7 092 359	6 324 032	7 174 528	6 325 097
Financial assets at fair value through profit or loss	14	6 746	22 252	6 746	22 252
Financial assets at fair value through OCI*	15	737 753	822 373	737 753	822 373
Securities at amortized cost	16	2 655 733	2 144 648	2 655 733	2 144 648
Derivative financial instruments	17	25 002	5 928	25 002	5 928
Investments in subsidiaries and associated companies	18	19 232	20 732	3 416	3 477
Intangible assets	19	15 397	10 705	16 028	11 235
Property and equipment	19	97 273	104 567	97 336	104 635
Investment properties	20	117 279	127 342	125 338	137 026
Right-of-use assets	21	22 170	22 043	22 266	22 138
Deferred tax assets	22	4 078	5 240	4 204	5 450
Corporate income tax receivables		777	1 983	777	1 983
Other assets	23	15 237	22 012	16 748	23 185
<b>TOTAL ASSETS</b>		<b>15 530 277</b>	<b>12 797 159</b>	<b>15 607 116</b>	<b>12 792 729</b>
<b>LIABILITIES</b>					
Deposits from banks	24	1 398 427	103 735	1 398 427	103 735
Deposits from customers	25	12 304 294	10 744 124	12 301 127	10 739 901
Payables under repo agreements	26	-	282 755	-	282 755
Derivative financial instruments	17	6 030	46 641	6 030	46 641
Other borrowed funds	27	111 712	68 200	191 476	68 200
Current income tax liabilities		-	-	26	47
Provisions	28	9 988	14 186	10 000	14 290
Lease liabilities	21	22 185	22 063	22 283	22 160
Deferred tax liabilities	22	-	-	1	1
Other liabilities	29	42 908	36 669	43 344	37 370
<b>TOTAL LIABILITIES</b>		<b>13 895 544</b>	<b>11 318 373</b>	<b>13 972 714</b>	<b>11 315 100</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital		93 838	93 838	93 838	93 838
Share premium		210 058	210 058	210 058	210 058
Retained earnings	30	1 287 421	1 116 219	1 287 090	1 115 062
Revaluation reserve	31	44 414	60 028	44 414	60 028
Reserve related to actuarial losses	28	(998)	(1 357)	(998)	(1 357)
<b>TOTAL EQUITY ATTRIBUTABLE TO UBB SHAREHOLDERS</b>		<b>1 634 733</b>	<b>1 478 786</b>	<b>1 634 402</b>	<b>1 477 629</b>
Non-controlling interest		-	-	-	-
<b>TOTAL EQUITY</b>		<b>1 634 733</b>	<b>1 478 786</b>	<b>1 634 402</b>	<b>1 477 629</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15 530 277</b>	<b>12 797 159</b>	<b>15 607 116</b>	<b>12 792 729</b>

\* Financial assets at fair value through OCI includes pledged under repo deals and for securing state budget funds government bonds amounting to BGN 257 537 thousand (2020: BGN 299 298 thousand).

These separate and consolidated financial statements have been approved for issue by the Management Board on 05.04.2022 and signed by:

	
Christof De Mil CFO	Teodor Marinov Executive Director
In reference to the auditors' report:	
	
Gergana Mihaylova Registered Auditor responsible for the audit	Mariya Apostolov Grant Thornton OOD
	
Pavel Pirinski Registered Auditor responsible for the audit	Jock Numan PricewaterhouseCoopers Audit OOD
Date: 08-04-2022	Date: 08-04-2022



**SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2021**

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
Balance as of 1 January 2020	93 838	210 058	1 012 325	(1 472)	61 941	1 376 690
Profit for the year	-	-	108 804	-	-	108 804
Other comprehensive income for the year, net of tax	-	-	(4 910)	115	(1 913)	(6 708)
<b>Total comprehensive income</b>	-	-	<b>103 894</b>	<b>115</b>	<b>(1 913)</b>	<b>102 096</b>
Balance as of 31 December 2020	93 838	210 058	1 116 219	(1 357)	60 028	1 478 786
Balance as of 1 January 2021	93 838	210 058	1 116 219	(1 357)	60 028	1 478 786
Profit for the year	-	-	171 114	-	-	171 114
Other comprehensive income for the year, net of tax	-	-	88	359	(15 614)	(15 167)
<b>Total comprehensive income</b>	-	-	<b>171 202</b>	<b>359</b>	<b>(15 614)</b>	<b>155 947</b>
Balance as of 31 December 2021	93 838	210 058	1 287 421	(998)	44 414	1 634 733

CONSOLIDATED	Share Capital	Share Premium	Retained Earnings	Reserve related to actuarial losses	Revaluation reserve	Total attributable to UBB equity shareholders	Non-controlling interest	Total
Balance as of 1 January 2020	93 838	210 058	1 013 979	(1 472)	61 941	1 378 344	272	1 378 616
Profit for the year	-	-	105 934	-	-	105 934	(6)	105 928
Other comprehensive income for the year, net of tax	-	-	(4 910)	115	(1 913)	(6 708)	-	(6 708)
<b>Total comprehensive income</b>	-	-	<b>101 024</b>	<b>115</b>	<b>(1 913)</b>	<b>99 226</b>	<b>(6)</b>	<b>99 220</b>
Changes in non-controlling interest	-	-	59	-	-	59	(266)	(207)
Transactions with owners	-	-	59	-	-	59	(266)	(207)
Balance as of 31 December 2020	93 838	210 058	1 115 062	(1 357)	60 028	1 477 629	-	1 477 629
Balance as of 1 January 2021	93 838	210 058	1 115 062	(1 357)	60 028	1 477 629	-	1 477 629
Profit for the year	-	-	171 945	-	-	171 945	-	171 945
Other comprehensive income for the year, net of tax	-	-	88	359	(15 614)	(15 167)	-	(15 167)
<b>Total comprehensive income</b>	-	-	<b>172 033</b>	<b>359</b>	<b>(15 614)</b>	<b>156 778</b>	-	<b>156 778</b>
Other	-	-	(5)	-	-	(5)	-	(5)
Balance as of 31 December 2021	93 838	210 058	1 287 090	(998)	44 414	1 634 402	-	1 634 402

These separate and consolidated financial statements have been approved for issue by the Management Board on 05.04.2022 and signed by:

Christof De Mil  
CEO

Teodor Marinov  
Executive Director

In reference to the auditors' report: \*

Gergana Mihaylova  
Registered Auditor responsible for the audit

Maryn Apostolov  
Grant Thornton OOD

Pavel Pirinski  
Registered Auditor responsible for the audit

Jock Numan  
PricewaterhouseCoopers Audit OOD

Date: 08-04-2022

Date: 08-04-2022

**SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

	Note	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>CASH FLOWS FROM OPERATING ACTIVITY:</b>					
Profit before tax		190 215	120 573	191 417	117 854
<b>Adjustments for non- cash items:</b>					
Impairment/ (reversal of impairment) of loans and advances to customers	9	(451)	43 169	(326)	43 838
Impairment/ (reversal of impairment) on off-balance sheet commitments	9	(4 438)	4 273	(4 438)	4 273
Impairments on non-financial assets	9	2 175	1 958	2 175	1 958
Provisions/ (release of provisions) for legal cases	7	751	(2 972)	697	(2 868)
Depreciation related to fixed assets, right-of-use assets and investment property	7,8	25 486	25 735	25 887	26 195
Amortization related to intangible assets	8	3 403	3 308	3 423	3 311
Other provisions	8	193	268	193	261
Dividend income from associates companies and subsidiaries		(3 120)	(4 983)	(518)	(429)
<b>Cash flow from operating profit before tax and before changes in operating assets and liabilities</b>		<b>214 214</b>	<b>191 329</b>	<b>218 510</b>	<b>194 393</b>
<b>Movements in operating assets and liabilities</b>					
Increase in receivables from banks		(21 914)	(171 889)	(21 914)	(171 889)
Increase in loans and advances to clients		(767 940)	(626 919)	(849 169)	(626 668)
Decrease in trading securities		15 506	12 151	15 506	12 151
(Increase)/ decrease in derivative financial instruments		(59 685)	31 262	(59 685)	31 262
(Increase)/ Decrease in other assets		11 332	(1 972)	11 997	(1 649)
(Decrease)/Increase in deposits from banks including payables under repo deals		1 011 937	(1 420 269)	1 011 937	(1 420 269)
Increase in deposits from customers		1 560 170	1 965 992	1 561 226	1 968 105
Increase in lease liabilities		167	212	128	181
Increase in other liabilities		466	10 378	163	10 415
Income tax paid		(16 605)	(14 556)	(16 626)	(14 538)
<b>NET CASH FLOW FROM/ (USED IN) OPERATING ACTIVITY</b>		<b>1 947 648</b>	<b>(24 281)</b>	<b>1 872 073</b>	<b>(18 506)</b>

(Continued on next page)



**SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS  
(CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2021**



All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>CASH FLOWS FROM INVESTING ACTIVITY:</b>					
Purchases of fixed assets		(19 016)	(21 865)	(19 038)	(268 440)
Purchase of intangible assets		(16 746)	(10 095)	(16 867)	(55 373)
Proceeds from sale of fixed assets		21 817	16 942	21 816	308 314
Increase in shareholding in associates					
Proceeds from sale of investments in associates		1 500	636	61	83
Redemption of FVOCI debt securities		141 988	268 689	141 988	268 690
Purchase of AC debt securities		(510 679)	(455 879)	(510 679)	(455 879)
Purchase of FVOCI securities		(72 960)	(130 579)	(72 960)	(130 579)
Dividend received		3 120	4 983	518	429
<b>NET CASH FLOW USED IN INVESTING ACTIVITY</b>		<b>(450 976)</b>	<b>(327 168)</b>	<b>(455 161)</b>	<b>(332 755)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY:</b>					
Dividends paid		-	-	(5)	(207)
Proceeds from long-term financing		43 512	-	123 276	-
Repayments to long-term financing	21	-	(57 900)	-	(57 900)
Repayments of lease liabilities		(9 483)	(9 772)	(9 482)	(9 753)
<b>NET CASH FLOW USED IN FINANCING ACTIVITY</b>		<b>34 029</b>	<b>(67 672)</b>	<b>113 789</b>	<b>(67 860)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENT</b>					
Net (decrease)/increase in cash and cash equivalents		1 530 701	(419 121)	1 530 701	(419 121)
<b>Cash and cash equivalents on 1 January</b>		<b>1 809 739</b>	<b>2 229 833</b>	<b>1 809 739</b>	<b>2 229 833</b>
Effect of the change in exchange rate of cash flows and cash equivalents		990	(973)	990	(973)
<b>Cash and cash equivalents on 31 December</b>	33	<b>3 341 430</b>	<b>1 809 739</b>	<b>3 341 430</b>	<b>1 809 739</b>
<b>Operating cash flows related to interests and fees:</b>					
Paid interests		Separate (12 651)	Separate (10 340)	Consolidated (12 651)	Consolidated (10 340)
Received interests		284 553	282 990	284 553	282 990
Paid commissions		(24 385)	(20 695)	(24 967)	(21 057)
Received commissions		161 847	137 982	166 704	142 145

These separate and consolidated financial statements have been approved for issue by the Management Board on 05.04.2022 and signed by:

Christof De Mil  
CEO

Teodor Marinov  
Executive Director

In reference to the auditors' report:

Gergana Minaylova  
Registered Auditor responsible for the audit

Mariy Apostolov  
Grant Thornton OOD

Pavel Pirinski  
Registered Auditor responsible for the audit

Jock Numan  
PricewaterhouseCoopers Audit OOD

Date: 08-04-2022

Date: 08-04-2022

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

## **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 UBB from National Bank of Greece, followed by a merger in Feb 2018 of UBB with former Cibank EAD (fully owned by KBC Bank N.V). After the merger 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 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 2021 are in the following configurations:

Supervisory Board:

- 1) Peter Andronov - Chairman of the Supervisory Board
- 2) Christine Van Rijseghem - Member of the Supervisory Board
- 3) Franky Depickere - Member of the Supervisory Board
- 4) Svetoslav Gavriiski – Independent Member of the Supervisory Board
- 5) Victor Yotzov – Independent Member of the Supervisory Board

Management Board:

- 1) Peter Roebben - 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) Tatyana Ivanova - Member of the Management Board and Executive Officer Marketing and Retail Distribution
- \* Hristina Filipova – Procurator – not a MB member, participates in the MB meetings without voting right.

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

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 2021 the Bank’s operations were conducted through a Headquarters Office in Sofia and 168 branches, 16 business centers and 26 remote workplaces throughout Bulgaria.

The number of full-time employees of the Bank as of 31 December 2021 was 2 555 (2020: 2 665).

The number of full-time employees of UBB Group as of 31 December 2021 was 2 618 (2020: 2 722).

These separate and consolidated financial statements have been approved for issue by the management Board on 05.04.2022.



*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

## **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 exercise 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.

The consolidated subsidiaries and associates in the UBB Group consolidated financial statements are as follows:

As of 31.12.2021:

<b>Entity name</b>	<b>Ownership (%)</b>	<b>Method of consolidation</b>	<b>Activity</b>
UBB Factoring EOOD	100 %	Fully consolidated	Factoring services
UBB Insurance Broker EAD	100%	Fully consolidated	Insurance brokerage services
East Golf Properties EAD	100%	Fully consolidated	Real estate
UBB Centre Management EOOD	100%	Fully consolidated	Real estate
Druzhestvo za Kasovi Uslugi AD	25%	Equity method of consolidation	Cash management services

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

#### **a) New and amended standards adopted by the Bank and the Group**

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2021:

**Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2021). The new amendments do not have a significant impact on the Bank’s financial results or position.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

## **2. BASIS OF PREPARATION (CONTINUED)**

### **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to Interest Rate Benchmark Reform – Phase 2** (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

The Bank has elected to early adopt Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16. The amendments have been applied retrospectively, with effect of adoption, if any, recognized in opening retained earnings on 1 January 2020. Comparative amounts have not been restated.

#### **Effect of IBOR reform**

Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published on 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023.

The table below discloses amounts of non-derivative financial assets at 31 December 2021 that would be transitioned to alternative interest rate benchmarks:

<i>In thousands of Bulgarian Levs</i>	<b>USD LIBOR Reference interest rate</b>	<b>Number of loans</b>	<b>Total Exposure in BGN</b>
<b>NON-DERIVATIVE FINANCIAL ASSETS</b>			
Loans and advances to customers	1M LIBOR	9	50 184
Loans and advances to customers	3M LIBOR	3	7 389
Loans and advances to customers	6M LIBOR	2	6 917
<b>TOTAL NON-DERIVATIVE FINANCIAL ASSETS</b>		<b>14</b>	<b>64 490</b>

The new amendments do not have a significant impact on the Bank's financial results or position.

**Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions** (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). The new amendments do not have a significant impact on the Bank's financial results or position.

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

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

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2021 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.

The amendments of the standards listed below are not expected to be material for the Bank and for the Group:

**Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018-2020** (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

## **2. BASIS OF PREPARATION (CONTINUED)**

**Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies** (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

**Amendments to IAS 8: Definition of Accounting Estimates** (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

**IFRS 17 Insurance Contracts** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023); **including Amendments to IFRS 17** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

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**

The amendments of the standards listed below are not expected to be material for the Bank and for the Group.

**Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information** (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).

**Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date** (issued on 23 January 2020 and 15 July 2020 respectively and effective for annual periods beginning on or after 1 January 2022).

**Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction** (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

## **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.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### 3.3. COVID-19

##### **Introduction:**

The Coronavirus pandemic notably affected the global economy in 2020 and 2021. The significant deterioration in the economic outlook has brought about an unprecedented monetary policy response from central banks and governments around the world.

Meanwhile, the Bank has been working hard with government agencies to support all customers impacted by coronavirus, by efficiently implementing various relief measures, including loan deferrals.

**Latest status overview of the different government and sector measures in our country include the following options, which were effective as 31.12.2021:**

- **Deferral of payments** approved by BNB valid until 31 December 2021– this option was applicable for retail and non-retail customers with the possibility for deferral of principal with or without deferral of interest payments. In case of principal deferral only, the tenor was extended by 6 months. Interest is accrued over the deferral period and is payable in 12 months (consumer and non-retail) or 60 months (mortgages) in equal instalments.
- **Guarantee scheme & Liquidity assistance** – UBB participates actively in anti-crisis credit guarantee programs for **SME and Corporate clients** such as COVID COSME, COVID InnovFin, COVID JEREMI Trade, Bulgarian Development Bank (BDB) COVID-19, Fund Manager of Financial Instruments in Bulgaria (FMFIB) COVID and EGF COVID. Next to this UBB applied actively also the BDB-COVID program to support **individuals**.

The application period of the relief measures under the payment moratorium was valid until 31 December 2021.

More details related to the loans and advances subject to EBA-compliant moratoria, other loans and advances subject to COVID-19-related forbearance measures, newly originated loans and advances subject to public guarantee schemes are disclosed in Note 35 (part of COVID-19 reporting requirements).

##### **Details related to the impact of the Corona crisis on the loan impairments during 2021:**

Referring to the disclosure in our annual report of 2021, the IFRS 9 ECL models cannot adequately capture the impact on the collective ECL. Hence, the bank booked a management overlay reflecting the IFRS 9 forward-looking view, based on a long-term approach, considered potential macroeconomic scenarios in the COVID-19 environment.

The assessment reflects expected credit losses for loans where credit risk is deemed to have increased. In particular, the Bank is continuously monitoring the industries that have been most affected by the financial impacts of the pandemic, including those related to leisure and tourism, wholesale distribution and services, the automotive, aviation and shipping industry, the oil & gas and metals sectors.

In 2021, the Bank performed an update of its Covid-19 impact assessment which resulted in a total collective Covid-19 ECL of BGN 20.7 million (2020: BGN 44.9 million), i.e. an ECL decrease of BGN 24.2 million.

This y-o-y decrease is mainly driven by:

- the reduction in the existing non-performing portfolio collective Covid-19 ECL (BGN 9.9 million), since there is no indication that additional ECL will materialize for the collectively managed stage 3 exposures from the Covid-19 crisis above a through the cycle level;
- the change of the migration expectation with overall on average of 25% (BGN 5 million).
- the reduction of the PD12 collective coverage ratios to define the (collective) coverage ratio to be used for those files expected to migrate to NPL – BGN 4.3 million;



*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

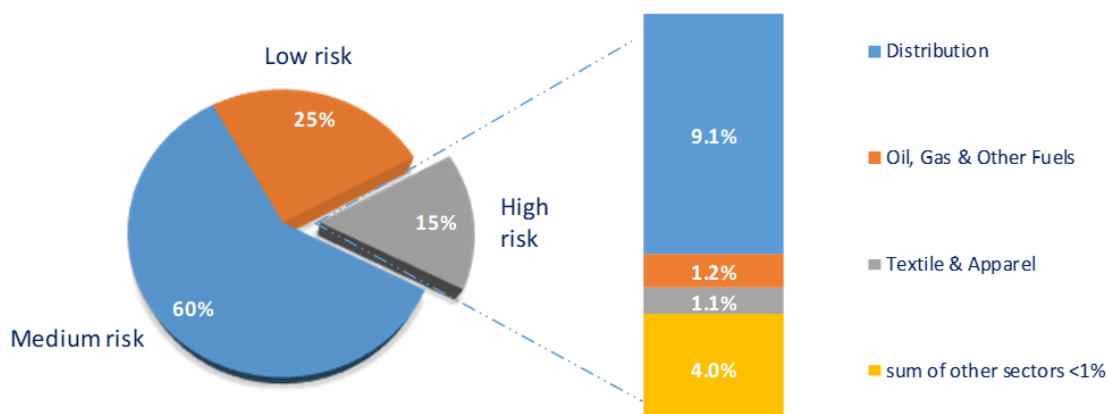
#### 3.3 COVID-19 (CONTINUED)

- release of additional Covid-19 impairments (BGN 1.4 million) for low-risk sectors (e.g. financial and pharma sector) given that forward-looking indicators (such as turnover on accounts and sentiment indicators) indicate that no deterioration in credit risk is expected for these exposures;
- the remainder of the movement is mainly driven by changes in the macroeconomic scenarios (BGN 3.6 million).

Given the aim of returning fully to the regular impairment process, the bank has decided to capture part of the collective Covid-19 ECL via a collective transfer to Stage 2 of two Stage 1 portfolios for which the repayment is still uncertain. More specially, the SME & Corporate clients active in a highly vulnerable sector and the payment holidays (Retail & Non-Retail) which are still ongoing or ended maximum 6 months ago. The related files will be reverted to Stage 1 in 1Q 2022, after a probation period of 6 months, in case no other signs of an increase in credit risk are detected. In 2021, BGN 132.1 million of stage 1 exposure was allocated to stage 2 based on this collective assessment with impact in ECL of BGN 0.3 million.

The following approach was applied to estimate the additional COVID-19 impact:

- 1) The migration per stages was determined based on an expert judgement based on the updated circumstances. The portfolio was transformed using this stage migration, whereby a certain portion of exposures moved from stage 1 to stage 2 / stage 3 and from stage 2 to stage 3. After this transformation, the ECL was calculated again based on the new portfolio structure. The estimate of COVID-19 base-case ECL impact was then determined as the difference between the ECL calculated on the portfolio before and after applying the migration between the stages.
- 2) A sectoral effect is incorporated in the calculation to refine the COVID-19 ECL in order to reflect the fact that some sectors will be more heavily affected than others. Exposures to sectors as aviation, shipping, real estate, hotel's industry and tourism are included in other sectors <1%. All exposures in the SME and Corporate portfolio are classified as high, medium or low risk based on the expected impact of the COVID-19 crisis on the sector affected (for Mortgages and Consumer Finance, no sectoral stress was applied).



- 3) Finally, a probability-weighted management overlay was calculated based on base-case, optimistic and pessimistic scenarios with the following weights: 80% for the base-case, 10% for the optimistic and 10% for the pessimistic scenario (2020: 55% for the base-case, 10% for the optimistic and 35% for the pessimistic scenario).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.3 COVID-19 (CONTINUED)

Booked management overlay for the existing non-performing portfolio collective Covid-19 ECL is fully released, since there is no indication that additional ECL will materialize for the collectively managed stage 3 exposures from the Covid-19 crisis above a through the cycle level.

#### COVID-19 ECL on IFRS 9 collectively assessed loan exposures:

2021	Performing portfolio					Non-performing portfolio	TOTAL 2021	
	Non-retail exposures				TOTAL			
	High risk sectors	Medium risk sectors	Low risk sectors	Retail exposures				
<b>BGN m</b>								
<b>Base-case scenario</b>	<b>2.1</b>	<b>5.2</b>	<b>0</b>	<b>13.4</b>	<b>20.7</b>			
Optimistic scenario	0.9	2.2	0	6.5	9.7			
Pessimistic scenario	3.6	8.5	0	19.8	31.9			
	Total COVID-19 impact					<b>20.7</b>	<b>0.0</b>	<b>20.7</b>

2020	Performing portfolio					Non-performing portfolio	TOTAL 2020	
	Non-retail exposures				TOTAL			
	High risk sectors	Medium risk sectors	Low risk sectors	Retail exposures				
<b>BGN m</b>								
<b>Base-case scenario</b>	<b>3.4</b>	<b>7.8</b>	<b>1.4</b>	<b>17.4</b>	<b>30.0</b>			
Optimistic scenario	1.5	3.4	0.6	8.4	13.9			
Pessimistic scenario	6.4	13.4	3.2	25.7	48.7			
	Total COVID-19 impact					<b>34.9</b>	<b>9.9</b>	<b>44.9</b>

The approach applied to the performing portfolio resulted in a total collective COVID-19 ECL of BGN 20.7 million. In 2021, the ECL models captured an impact of BGN 2.3 million through the updated macroeconomic variables used in the calculations. The total COVID-19 management overlay booked in 2021 amounts to BGN 18.3 million. The management overlay is fully presented as stage 2.

A change in the weight assigned to base case scenario by 50% towards the pessimistic scenario would result in an increase in COVID-19 impact by BGN 4.5 million at 31 December 2021. A corresponding change towards the optimistic scenario weight would result in a decrease in COVID-19 impact by BGN 4.4 million at 31 December 2021.

Excluding the collective COVID-19 ECL, the Credit Cost Ratio (Net Credit Impairments recognized in the Profit or Loss relative to the average loan portfolio) amounted to 0.26% in 2021 which is by 21 bps higher than 2020 entirely driven by one-off release in 2020 related with the implementation of the new IFRS 9 models. Including the collective COVID-19 ECL, the Credit Cost Ratio is negative due to release of the management overlay under the new assessment during 2021.

Credit cost %	2021	2020
Without collective COVID-19 ECL	0.26%	0.05%
With collective COVID-19 ECL	-0.06%	0.71%

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **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.

##### *b) Classification of properties acquired from collateral foreclosure*

UBB classifies those properties as investment property in case they are held 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) 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.

##### *d) Allowance for impairment losses and un-collectability*

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 recognized. 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

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.4. Critical accounting estimates and judgments (continued)**

##### *e) Allowance for impairment losses and un-collectability (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:

<b>Impairment Type</b>	<b>Description</b>
<b>Model Based (i.e. Collective)</b>	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).
<b>Individual</b>	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.

##### *e) Valuation of Investment properties*

Investment property acquired in the process of Non-performing loans 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) or based on the received offers for purchase of the property.

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.

#### **3.5. Functional and presentation currency**

The Bank and its subsidiaries' 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 recognized in the statement of profit or loss as commission income. 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.



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6. Financial instruments

- **Recognition**

Financial assets and liabilities are recognized in the statement of financial positions when UBB becomes a party to the contractual provisions of the instruments.

Regular purchases or sales of financial assets are recognized 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 categorization 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 at amortised cost (AC)**

#### Reverse Repos

A reverse repo is a transaction in which UBB purchases a financial asset and simultaneously enters into an agreement to sell the asset (or a similar asset) at a fixed price on a future date; this agreement is accounted for as a Reverse repo, and the underlying asset is not recognized in the financial statements.

- **Financial assets – debt instruments**

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

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

In line with IFRS 9 a financial asset debt instrument is measured at **amortized 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 amortized cost is not appropriate and the instrument should be classified as fair value through profit or loss.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6. Financial instruments (continued)

##### 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 finance team on which the 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 amortized 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 amortized 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 a rare 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 , 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 have basic lending arrangements attribute.

Only debt instruments meeting the SPPI condition can be measured at amortized 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;*
- *Non-recourse or partial recourse debt instruments;*
- *Assessment of embedded prepayment options in loan contracts;*
- *Debt instruments where contractual cash flows (principal or interest) is linked to the business risk (e.g.: bonds cash flows dependent on the utilization of the toll road);*
- *Multi-currency options;*
- *Embedded floor or cap options resulting in leveraged interest rate;*
- *Deeply sub-ordinated debt instruments.*

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

##### • **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*

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6. Financial instruments (continued)

This requirement has to be applied to the entire debt instrument even if it is a hybrid instrument containing embedded derivative. Under IFRS 9 embedded derivative cannot be separated from the host contract. When the contractual cash flows of a hybrid instrument give rights to cash flows other than principal and interest then the 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 analyzed 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 categorization 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;*

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)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6. Financial instruments (continued)

Under IFRS 9 debt instruments which would normally be categorized 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 recognized in profit or loss subsequently. Once a debt instrument is classified as FVOCI category it cannot be reclassified into other categories.

In accordance with IFRS 9 the FVOCI category can only be used for accounting mismatches. The accounting mismatches can arise from measuring assets and liabilities or recognizing the gains and losses on them on different bases and when designating as FVOCI 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 recognized 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 recognized in other comprehensive income. The only exception relates to the dividend received which can be recognized in profit or loss.

The irrevocable election as fair value through other comprehensive income means also that even when the instrument is derecognized 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.*



*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6. Financial instruments (continued)**

- **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 another 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 statement of financial position because they are not related to costs and their net fair value is closed to 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 are 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 categorized 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 finalized 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.

- **Fair value hedges**

#### **Hedge accounting**

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 statement of profit or loss together with the changes in the fair value of the hedged assets attributable to the hedged risk.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6. Financial instruments (continued)**

##### **Hedge accounting (continued)**

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 amortized 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 derecognized.

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

##### **Hedging relationships**

Since 2015, the Bank has three hedging relationships in its banking portfolio. All of these items relate to fixed rate bonds classified as AFS financial assets denominated in euro and three interest rate swaps denominated in euro, respectively. The hedging relationships are structured in such a way that 100% of the position in debt securities is hedged, hedging only that part of the assets that is subject to interest rate risk.

The bonds and the swaps in the respective hedging relationships have exactly the same notional and principal amounts, term, repricing dates, dates of interest and principal receipts and payments. The effectiveness of the described above hedging relationships is measured at the end of each quarter and, since their origination, it is in the range of 80% -125%.

All three hedging relationships were originated in 2015 and started directly in the form of the hedge accounting, as again the hedged item and the hedging instrument are purchased simultaneously.

##### **Hedge effectiveness**

Hedge effectiveness is determined at the inception of the hedge relationship, as well as through periodic prospective and retrospective assessments to ensure that a relevant relationship between the hedged item and the hedging instrument exists and remains valid.

##### **Effectiveness testing**

For interest rates, several prospective and retrospective tests are performed to ensure the relationship between the hedged item and the hedging instrument qualifies for the hedge accounting strategy.

Prospective tests are mostly based either on a sensitivity analysis (verifying if the basis point value of the hedged portfolio relative to the hedging instruments stays within the 80-125% interval) or volume tests (if the principle amount of hedge-eligible items exceeds the notional volume of hedging instruments expected to be repriced or repaid in each specified time bucket).

The retrospective effectiveness test of the hedge relationship is periodically carried out by comparing the change in fair value of the portfolio of hedging instruments relative to the change in the fair value of the hedged eligible items imputable to the hedged risk over a given period (the ratio of fair value changes remains within the 80-125% interval).

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6. Financial instruments (continued)**

##### **Sources of hedge ineffectiveness**

Ineffectiveness for interest rate swaps may occur due to:

- Differences in relevant terms between the hedged item and the hedging instrument (it can include discrepancies in interest curves and in periodicity);
- A reduction in volume of the hedged item that would fall under the volume of hedging instruments for any time bucket;
- The credit value adjustment on the interest rate swap not being matched by the loan. However, hedging swaps are fully collateralized or traded through clearing housed and the credit value adjustment is limited.

##### **Discontinuation of hedge accounting**

Hedge accounting strategies failing the effectiveness tests are discontinued. A de-designated hedging instrument can be re-designated in a new hedge relationship. Effective hedge accounting strategies may also be discontinued for technical or strategic reasons. Any impact on profit and loss arising from hedge ineffectiveness and discontinuation is reported to the LRMC.

- **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.

- **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 amortized cost.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6. Financial instruments (continued)**

Financial liabilities measured at amortized cost within UBB include:

- *Deposits from credit institutions and investment firms*
- *Deposits from customers*
- *Repos*
- *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 recognized at initial recognition at the fair value of deposit received. Financial liabilities are subsequently measured at amortized 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.

#### **Other borrowed funds**

Borrowings are recognized initially at the fair value of cash flows received at the origination of the liability less the transactions costs. Subsequently borrowings are stated at amortized cost with any premium/discount recognized in statement of profit or loss using the effective interest rate method.

#### **Repos**

In a repo transaction, UBB sells a security and simultaneously agrees to repurchase it (or a substantially similar asset) at a fixed price on a future date. UBB continues to recognize the securities in their entirety because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and the financial liability is recognized for the obligation to pay the repurchase.

- **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 effective before the reclassification date.

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

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



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6. Financial instruments (continued)

- **Reclassification of financial liabilities**

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

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

- **Impairment of financial assets**

#### *Background*

The IFRS 9 impairment model is an Expected Credit Loss (ECL) model which means that it is not necessary for a loss event to occur before an impairment loss is recognized. 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 amortized 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 recognized by the lessors (in scope of IFRS 16f); 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.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6. Financial instruments (continued)**

The ECL is calculated in a way that reflects:

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

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

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

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

#### ***Significant increase in credit risk***

The measurement basis (12-month PD or Lifetime PD) depends on whether there has been a significant increase in credit risk since initial recognition. Different tiers are used in the assessment for significant increase in credit risk, followed by the two multi-tier approaches (one for loans and advances and another for debt securities) 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 derecognized when:

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.7. Derecognition (continued)**

##### **3.7.1. Financial assets (continued)**

- 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.

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 recognized 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 derecognized from the statement of financial position 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 de-recognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

- **Financial liabilities – Undrawn commitment, Financial guarantees and LC**

Financial guarantee contract is one 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. Financial guarantees are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortized balance of the amount at initial recognition. In addition, an ECL loss allowance is recognized for fees receivable that are recognized in the statement of financial position as an asset.

The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortized balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.7. Derecognition (continued)**

##### **3.7.2. Financial liabilities (continued)**

For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognized together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognized as a liability.

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.

#### **3.8. Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if and only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize 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 amortized cost and investment properties measured at cost less accumulated depreciation and accumulated impairment losses. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

- They are independent of each other (if 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.



*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.9. Fair value measurement (continued)**

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 maximizing the use of relevant observable inputs and minimizing 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 categorizes 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.
- **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 i.e. 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.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.9. Fair value measurement (continued)**

For assets and liabilities that are recognized 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 categorization (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 FVOCI 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.

#### **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:

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.10. Property, plant and equipment (continued)**

	<b>Annual depreciation rates (Useful life)</b>
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)
Equipment for building installations	4% (20 years)
Machines equipment servers ATMs and POS	20% (5 years)
GSMs	50% (2 years)
Safe/ Strong box	10% (10 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 amortization and impairment.

The applicable annual amortization rates are as follows:

	<b>Annual depreciation rates (Useful life)</b>
Software	20% (5 years)
Patents, licenses, trademarks and trade rights	20% (5 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 at that date determined by an independent valuator. Subsequently investment properties are measured using the „cost model” i.e. the price of acquisition less any accumulated depreciation and accumulated impairment losses. If there are indications for impairment of a specific investment property, UBB determines its recoverable amount being the highest of: the value in use and the fair value less by costs of sale of the investment property. The carrying amount of the property is decreased to its recoverable amount with the difference recognized as impairment in the Statement of profit or loss. Impairment loss recognized in the previous years is recovered through the Statement of profit or loss in case there are subsequent changes in the forecasts for defining the recoverable value. Subsequent costs are capitalized 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.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **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 statement of financial position 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 recognized at fair value when acquired and presented as investment properties or inventories within other assets line 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. In this category are included collaterals on NPL loans acquired before 2017 (changes in Accounting policy such assets to be treated as Investment properties which does not meet the criteria of IAS 40 for reclassification). They are subsequently measured at a lower of initial cost and their fair value less cost to sell.

#### **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 cash flows 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.



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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.15. Impairment of other receivables**

Other receivables other than the Loan related (e.g. 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 (e.g. triggers are days past due, other information indicating non-performing status). In the assessment UBB considers the provided collateral and the received Guarantees. All receivables with days past due above 90 are in Stage 3 and are impaired with 50% and those with DPD >180 are 100% impaired. Receivables below 90 days past due are in Stage 2 (not impaired) and are subject to ECL: of 2.3% for trade receivables; 2.7% for operating leases and 0.2% for Cash collateral deposited on derivative transactions or rental contracts. 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.

#### **3.16. Tax**

Taxes reported in the financial statements are in line with Bulgarian law. Income tax benefits or expenses in the statement of profit or loss 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 recognized as expense in the period in which the profit has occurred. Tax expenses other than corporate income taxes are included in "Other administrative expenses" in the Statement of profit or loss.

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 realized 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 recognizes 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 utilized. Current and deferred taxes are recognized as income or expense in the statement of profit or loss 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

#### **3.17. Provisions, contingent liabilities and contingent assets**

Provisions are recognized 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 recognized as a provision is the best estimate of the expenditure required to settle the obligation at statement of financial position date.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.17. Provisions, contingent liabilities and contingent assets (continued)**

When the effect of time is material the amount recognized 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 recognized.

#### **3.18. 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 Labor Code every employee is entitled to compensation amounting to two or six gross salaries upon retirement depending of the length of service.

Provisions are recognized 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.

#### **3.19. Interest income and interest expense**

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

#### **3.20. Fee and commission income**

Most net fee and commission income fall 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 recognized only when UBB has satisfied the performance obligation. If the performance obligation is satisfied at a specific moment, the related revenue is recognized in the Statement of profit or loss when the service is provided and if the performance obligation is satisfied over-time, the related revenue is recognized in the Statement of profit or loss in order to reflect the progress of satisfaction of such obligation. Fee and commission income comprise mainly fees charged on transactions performed at the teller's desk and on money transfers, bank insurance, credit transactions, guarantees, assets management, FX network income 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 considered when calculating the effective interest rate as they represent a separate service. Such fees are recognized when occur and presented as Net fee and commission income in the period to which they relate.

#### **3.21. Rental income**

Rental income on properties leased out under operating leases is recognized in accordance with IFRS 16. Revenue is recognized to the extent that it is probable that the economic benefits will flow to UBB and the revenue can be reliably measured. The Bank recognizes rental income on straight line basis.

#### **3.22. Leases**

##### ***General provisions***

The recognition, measurement, presentation and disclosure of leases shall be made in accordance with the requirements of IFRS 16 Leasing, considering the terms and conditions of the contracts and all relevant facts and circumstances. Upon initial recognition, the Bank determines whether a contract is a lease or contains a lease component.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.22. Leases (continued)**

A lease is defined as “a contract or part of a contract that confers the right to use an asset (the underlying asset) for a specified period of time in exchange for remuneration.” To apply this definition, the Bank makes three main judgments:

- Whether the contract contains an identified asset that is either explicitly stated in the contract or is specified by default at the time the asset is made available for use.
- The Bank has the right to receive essentially all economic benefits from the use of the asset during the entire period of use, within the defined scope of its right to use the asset under the contract.
- The Bank has the right to control the use of the identified asset throughout the period of use.

The Bank reassesses whether a contract is or contains a lease only if the terms and conditions of the contract are changed.

#### ***Measurement and recognition of leases – Bank as a lessee***

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;
- 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 Fund Transfer Pricing 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.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.22. Leases (continued)**

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 amortization periods for the right-of-use assets is based on contract tenor:

- right of use for the cars 3 – 4 years
- right of use for the office building 1 - 10 years

Expenses on contracts which are out-of-scope of IFRS 16 are reported in the statement of profit or loss 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 recognized in the period in which the benefits are realized.

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 recognized with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognized 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.

#### ***Extension and termination options***

Extension and termination options are included in a number of property leases across the Bank. These are used to maximize 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 3.4.

#### **3.23. 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 recognized over the lease term on the same basis as the rental income from that asset. The rental income from operating lease' contracts is recognized on a straight-line basis over the lease term.

#### **3.24. 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.



**NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2021**



All amounts are in thousand Bulgarian Levs, unless otherwise stated

**4. NET INTEREST INCOME**

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>A. Interest income on financial instruments calculated using the effective interest rate method</b>				
Deposits placed with banks	254	722	254	722
Loans and advances to customers	208 665	213 478	209 825	214 134
Financial assets at fair value through other comprehensive income	15 885	17 245	15 885	17 245
Financial assets at amortized cost	28 283	27 326	28 283	27 326
Interest income on liabilities	9 066	4 132	9 170	4 131
<b>Interest income on other financial instruments</b>				
Economic Hedges	5 460	8 247	5 460	8 247
Financial assets at fair value through profit or loss	359	864	359	864
	<b>267 972</b>	<b>272 014</b>	<b>269 236</b>	<b>272 669</b>
<b>B. Interest expense on financial instruments calculated using the effective interest rate method</b>				
Financial liabilities held for trading	(10)	-	(10)	-
Deposits from banks	(121)	(956)	(121)	(956)
Deposits from customers	(1 103)	(3 921)	(1 103)	(3 922)
Long term borrowings	(390)	(964)	(390)	(964)
Hedge and trading derivatives	(1 548)	(1 401)	(1 548)	(1 401)
Lease liabilities	(52)	(96)	(52)	(96)
Interest expense on placements with banks and reverse repos assets	(9 926)	(2 543)	(9 926)	(2 542)
	<b>(13 150)</b>	<b>(9 881)</b>	<b>(13 150)</b>	<b>(9 881)</b>
<b>TOTAL</b>	<b>254 822</b>	<b>262 133</b>	<b>256 086</b>	<b>262 788</b>

The interest income on impaired assets for 2021 is 3 849 thousand (2020: 6 393 thousand).

**5. NET FEE AND COMMISSION INCOME**

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>A. Fee and commission incomes</b>				
Service fees of customer accounts	31 772	30 875	31 771	30 875
Transfer of funds and cash transactions	32 012	30 113	32 009	30 111
Card-related services fees	33 003	25 513	33 003	25 513
Fees FX transactions	20 962	14 118	20 970	14 114
Bank insurance fees	15 589	13 963	15 589	13 963
Loans and advances to customers	13 363	11 717	14 819	12 445
Asset management fees	6 035	3 427	6 035	3 665
Guarantees and letters of credit	3 702	2 853	3 781	3 066
Fiduciary/custodian activities	2 205	2 298	5 525	5 293
Other fees and commissions	1 606	1 530	1 604	1 525
Revenue from valuation of properties	1 143	1 141	1 143	1 141
Fees safety vault	455	434	455	434
	<b>161 847</b>	<b>137 982</b>	<b>166 704</b>	<b>142 145</b>
<b>B. Fee and commission expenses</b>				
Card-related services fees	(16 553)	(12 286)	(16 553)	(12 286)
Guarantees and letters of credit	(1 460)	(1 879)	(1 460)	(1 879)
Fiduciary/custodian activities	(1 004)	(1 643)	(1 004)	(1 643)
Transfer of funds and cash transactions	(1 506)	(1 324)	(1 506)	(1 324)
Fees from sales of SMS packages / e-mails	(1 240)	(1 303)	(1 240)	(1 303)
Insurance expenses	(1 024)	(1 143)	(1 568)	(1 406)
Expenses on valuation of collateral on loans	(1 387)	(1 086)	(1 387)	(1 086)
Other fees and commissions	(211)	(31)	(249)	(130)
	<b>(24 385)</b>	<b>(20 695)</b>	<b>(24 967)</b>	<b>(21 057)</b>
<b>TOTAL</b>	<b>137 462</b>	<b>117 287</b>	<b>141 737</b>	<b>121 088</b>

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 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Net result from financial instruments Held for Trading</b>				
Gains / (losses) on Foreign exchange				
Net gains from FX derivatives	(51)	1 606	(51)	1 606
Gains/losses on Held for trading financial assets and liabilities - Interest rate instruments	564	-	564	-
	<b>513</b>	<b>1 606</b>	<b>513</b>	<b>1 606</b>
(Losses)/ Gains on interest rate instruments				
Government and corporate securities	(333)	(806)	(333)	(806)
Mutual funds	464	(206)	464	(206)
	<b>131</b>	<b>(1 012)</b>	<b>131</b>	<b>(1 012)</b>
<b>TOTAL</b>	<b>644</b>	<b>594</b>	<b>644</b>	<b>594</b>

## 7. NET OTHER INCOME

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Gains/ Loss on disposal of fixed assets	7 008	2 799	7 150	2 855
Rental income	4 652	5 052	4 792	5 076
Income from operational events	408	234	408	234
Income from sale of investments in subsidiaries and associates	-	963	-	912
Other income from investment properties	9	18	689	697
Other operating income	253	230	1 218	969
Direct costs of acquired properties	(2 255)	(2 685)	(2 286)	(2 709)
Expenses from operational events	(1 451)	(535)	(1 451)	(535)
Expenses related to collateral on loans	(322)	(416)	(322)	(416)
Release on provisions for legal cases	(751)	2 972	(697)	2 868
Depreciation of investment property	(3 031)	(2 929)	(3 366)	(3 307)
Other	(154)	(474)	(154)	(475)
<b>TOTAL</b>	<b>4 366</b>	<b>5 229</b>	<b>5 981</b>	<b>6 169</b>

## 8. OPERATING EXPENSES

### a) Staff expenses

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Wages and Salaries	(70 416)	(68 038)	(72 457)	(69 931)
Social security costs	(12 701)	(12 077)	(13 031)	(12 385)
Bonuses and other compensation expenses	(10 849)	(8 220)	(11 105)	(8 322)
Other staff costs	(6 413)	(6 858)	(6 558)	(6 977)
Provision for staff related restructuring charge/reversal	-	-	-	7
Pension costs - defined contribution plans	(193)	(268)	(193)	(268)
<b>TOTAL</b>	<b>(100 572)</b>	<b>(95 461)</b>	<b>(103 344)</b>	<b>(97 876)</b>

In 2021, staff expenses increased by 5.6% compared to 2020 of which the increase due to the payment of a one-off COVID-19 bonus for staff is 2.7% at the amount of BGN 2 563 thousand on individual base and BGN 2 613 thousand on consolidated base.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 8. OPERATING EXPENSES (CONTINUED)

### b) General administrative expenses

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
IT expenses	(27 912)	(27 689)	(28 111)	(27 843)
Banking tax	(15 645)	(30 579)	(15 645)	(30 579)
Repair, maintenance and other facilities expenses	(17 587)	(17 848)	(17 736)	(18 108)
Rental expenses	(1 257)	(1 208)	(1 263)	(1 213)
Advertising, marketing and communication	(3 286)	(2 667)	(3 294)	(2 680)
Professional fees	(2 623)	(2 747)	(2 748)	(2 912)
Business trip expenses	(233)	(284)	(237)	(292)
Costs charged by other KBC Group entities	(1 187)	(755)	(1 187)	(756)
Training expenses	(264)	(222)	(267)	(222)
Other expenses	(16 374)	(14 664)	(16 517)	(14 830)
<b>TOTAL</b>	<b>(86 368)</b>	<b>(98 663)</b>	<b>(87 005)</b>	<b>(99 435)</b>

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Audit expenses	(548)	(539)	(578)	(572)

### c) Depreciation and amortization expenses

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Depreciation of fixed assets	(13 144)	(13 243)	(13 172)	(13 298)
Depreciation of right-of-use assets	(9 311)	(9 563)	(9 349)	(9 590)
Amortization of intangible assets	(3 403)	(3 308)	(3 423)	(3 311)
<b>TOTAL</b>	<b>(25 858)</b>	<b>(26 114)</b>	<b>(25 944)</b>	<b>(26 199)</b>

## 9. IMPAIRMENT EXPENSES

The net charge for the impairments for year ended 31 December 2021 and 31 December 2020 as follows:

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Impairment on financial assets at AC and at FVOCI</b>	<b>451</b>	<b>(43 169)</b>	<b>326</b>	<b>(43 838)</b>
Loans and advances to customers*	1 791	(42 324)	1 719	(42 877)
Collection expenses	(1 404)	(1 961)	(1 457)	(2 082)
Due from banks	(104)	(63)	(104)	(63)
Financial assets at FVOCI	22	22	22	22
Financial Assets at AC	318	1 047	318	1 047
Other receivables	(172)	110	(172)	115
<b>Other Impairments</b>	<b>2 263</b>	<b>(6 231)</b>	<b>2 263</b>	<b>(6 231)</b>
Fixed and intangible assets	(895)	(369)	(895)	(369)
Investment Property	(612)	(96)	(612)	(96)
Impairment of foreclosed assets	(668)	(1 493)	(668)	(1 493)
(Impairment)/Reversal of impairment on off-statement of financial position commitment	4 438	(4 273)	4 438	(4 273)
<b>TOTAL</b>	<b>2 714</b>	<b>(49 400)</b>	<b>2 589</b>	<b>(50 069)</b>

\*Impairments of Loans and advances to customers include income from written-off loans at the amount of BGN 14 246 thousand both on individual and consolidated base for the year ended 31 December 2021 (2020: 7 848 thousand both on individual and consolidated base).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 10. INCOME TAX EXPENSE

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Current tax expense	(17 979)	(11 740)	(17 979)	(11 740)
Deferred tax expense/ (income) related to origination and reversal of temporary differences	(1 122)	(29)	(1 205)	62
<b>Tax expense</b>	<b>(19 101)</b>	<b>(11 769)</b>	<b>(19 184)</b>	<b>(11 678)</b>
Share of tax in subsidiaries and equity method investments	-	-	(288)	(248)
<b>TOTAL</b>	<b>(19 101)</b>	<b>(11 769)</b>	<b>(19 472)</b>	<b>(11 926)</b>

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

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Profit before taxation	190 215	120 573	191 417	117 854
Prima facie tax calculated at an applicable tax rate (10% for 2021 and 2020)	(19 022)	(12 057)	(19 142)	(11 785)
Tax effect of income/(expenses) that are not deductible in determining the taxable profit	(79)	288	(79)	288
<b>Tax expense</b>	<b>(19 101)</b>	<b>(11 769)</b>	<b>(19 221)</b>	<b>(11 497)</b>
Share of tax in associates subsidiaries and equity method investments	-	-	(251)	(429)
<b>TOTAL</b>	<b>(19 101)</b>	<b>(11 769)</b>	<b>(19 472)</b>	<b>(11 926)</b>
Effective income tax rate	10.04%	9.76%	10.17%	10.12%

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 2021 and as of 31 December 2020 are calculated using the tax rate of 10% enacted as of that date to be effective for 2021 and 2020.

## 11. CASH AND CASH BALANCES WITH THE CENTRAL BANK

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Cash in hand	243 722	244 413	243 722	244 413
Minimum reserve with the Central Bank	1 171 667	956 476	1 171 667	956 476
Current account with the Central Bank	747 047	434 887	747 047	434 887
<b>TOTAL</b>	<b>2 162 436</b>	<b>1 635 776</b>	<b>2 162 436</b>	<b>1 635 776</b>

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.

## 12. DUE FROM BANKS AND REVERSE REPOS WITH BANKS

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Nostro accounts	546 861	389 386	546 861	389 386
Interbank placements	897 901	68 849	897 901	68 849
Other loans and advances to banks	668 406	482 583	668 406	482 583
Reverse Repos with banks	445 637	586 708	445 637	586 708
<b>TOTAL</b>	<b>2 558 805</b>	<b>1 527 526</b>	<b>2 558 805</b>	<b>1 527 526</b>
Included in cash equivalents (note 33)	2 350 661	1 130 439	2 350 661	1 130 439



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 13. LOANS AND ADVANCES TO CUSTOMERS

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

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Individuals (retail)</b>				
Overdrafts	57 911	78 490	57 911	78 490
Credit cards	94 660	86 601	94 660	86 601
Mortgages	1 726 274	1 568 570	1 726 274	1 568 570
Consumer loans	1 246 512	1 131 637	1 246 512	1 131 637
Other loans	37 677	37 233	37 677	37 233
	<b>3 163 034</b>	<b>2 902 531</b>	<b>3 163 034</b>	<b>2 902 531</b>
<b>Corporate entities</b>				
Financial institutions	100 547	128 111	100 547	128 111
Large corporate customers	1 341 916	1 124 670	1 341 916	1 124 670
SME corporate	2 568 098	2 363 304	2 653 417	2 367 414
Governmental institutions	74 446	77 106	74 446	77 106
	<b>4 085 007</b>	<b>3 693 191</b>	<b>4 170 326</b>	<b>3 697 301</b>
<b>Other Financial assets</b>	<b>35 223</b>	<b>6 212</b>	<b>35 193</b>	<b>6 212</b>
<b>Loans and advances to customers, gross</b>	<b>7 283 264</b>	<b>6 601 934</b>	<b>7 368 553</b>	<b>6 606 044</b>
<b>Less: allowance for impairment</b>	<b>(190 905)</b>	<b>(277 902)</b>	<b>(194 025)</b>	<b>(280 947)</b>
<b>Loans and advances to customers, net of provision</b>	<b>7 092 359</b>	<b>6 324 032</b>	<b>7 174 528</b>	<b>6 325 097</b>

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

	Year ended 31.12.2021			Year ended 31.12.2020		
	SEPARATE			SEPARATE		
	Gross Carrying Amount	Allowance for impairment	Net Carrying Amount	Gross Carrying Amount	Allowance for impairment	Net Carrying Amount
<b>Individuals (retail)</b>	<b>3 174 387</b>	<b>(79 259)</b>	<b>3 095 128</b>	<b>2 902 717</b>	<b>(118 144)</b>	<b>2 784 573</b>
Stage 1	2 782 423	(2 930)	2 779 493	2 433 146	(3 703)	2 429 443
Stage 2	256 795	(19 996)	236 799	285 200	(29 255)	255 945
Stage 3	135 169	(56 333)	78 836	184 371	(85 186)	99 185
<b>Corporate entities</b>	<b>4 108 877</b>	<b>(111 646)</b>	<b>3 997 231</b>	<b>3 699 217</b>	<b>(159 758)</b>	<b>3 539 459</b>
Stage 1	3 473 460	(5 453)	3 468 007	3 123 390	(11 586)	3 111 804
Stage 2	338 616	(8 793)	329 823	194 079	(7 171)	186 908
Stage 3	296 801	(97 400)	199 401	381 748	(141 001)	240 747
<b>Loans and advances to customers, net</b>	<b>7 283 264</b>	<b>(190 905)</b>	<b>7 092 359</b>	<b>6 601 934</b>	<b>(277 902)</b>	<b>6 324 032</b>
	Year ended 31.12.2021			Year ended 31.12.2020		
	CONSOLIDATED			CONSOLIDATED		
	Gross Carrying Amount	Allowance for impairment	Net Carrying Amount	Gross Carrying Amount	Allowance for impairment	Net Carrying Amount
<b>Individuals (retail)</b>	<b>3 174 387</b>	<b>(79 259)</b>	<b>3 095 128</b>	<b>2 902 717</b>	<b>(118 144)</b>	<b>2 784 573</b>
Stage 1	2 782 423	(2 930)	2 779 493	2 433 146	(3 703)	2 429 443
Stage 2	256 795	(19 996)	236 799	285 200	(29 255)	255 945
Stage 3	135 169	(56 333)	78 836	184 371	(85 186)	99 185
<b>Corporate entities</b>	<b>4 194 166</b>	<b>(114 766)</b>	<b>4 079 400</b>	<b>3 703 327</b>	<b>(162 803)</b>	<b>3 540 524</b>
Stage 1	3 441 857	(5 439)	3 436 418	3 077 505	(11 591)	3 065 914
Stage 2	451 364	(9 448)	441 916	239 684	(8 219)	231 465
Stage 3	300 945	(99 879)	201 066	386 138	(142 993)	243 145
<b>Loans and advances to customers, net</b>	<b>7 368 553</b>	<b>(194 025)</b>	<b>7 174 528</b>	<b>6 606 044</b>	<b>(280 947)</b>	<b>6 325 097</b>

**NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2021**



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**

Credit loss allowance <b>SEPARATE</b>	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			<b>Total</b>
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
	At 1 January 2021	(128)	(3 575)	(11 574)	(2 112)	(27 143)	(7 182)	(39 213)	(45 973)	
Increases due to origination	(78)	(1 484)	(1 981)		(1 784)	(480)	-	-	-	<b>(5 807)</b>
Decrease due to derecognition /full repayment/	9	722	1 365	183	4 579	888	3 330	2 132	10 354	<b>23 562</b>
Decrease in allowance account due to write-offs	-	-	-	-	-	-	19 602	20 843	55 468	<b>95 913</b>
Other adjustments (Unwinding)	-	(0)	1	-	-	(13)	-	-	3 721	<b>3 709</b>
Changes due to changes in model/methodology	-	-	-	-	-	1 031	-	-	-	<b>1 031</b>
Changes due to change in credit risk (net)	107	1 497	6 736	748	5 533	(2 913)	(6 536)	(10 518)	(26 065)	<b>(31 411)</b>
At 31 December 2021	<b>(90)</b>	<b>(2 840)</b>	<b>(5 453)</b>	<b>(1 181)</b>	<b>(18 815)</b>	<b>(8 669)</b>	<b>(22 817)</b>	<b>(33 516)</b>	<b>(97 524)</b>	<b>(190 905)</b>

Credit loss allowance <b>SEPARATE</b>	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			<b>Total</b>
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
	At 1 January 2020	(292)	(3 128)	(18 725)	(1 451)	(6 417)	(8 200)	(49 983)	(42 554)	
Increases due to origination	(299)	(1 449)	(2 899)	(12)	(2 077)	(265)	-	-	-	<b>(7 001)</b>
Decrease due to derecognition /full repayment/	10	584	1 209	70	808	1 412	527	2 175	5 201	<b>11 996</b>
Decrease in allowance account due to write-offs	-	-	-	-	-	-	5 633	14 622	94 578	<b>114 833</b>
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	6 393	<b>6 393</b>
Changes due to changes in model/methodology	602	2 687	12 540	1 407	(2 744)	6 637	5 279	4 965	3 152	<b>34 525</b>
Changes due to change in credit risk (net)	(149)	(2 269)	(3 699)	(2 126)	(16 713)	(6 766)	(669)	(25 181)	(32 116)	<b>(89 688)</b>
At 31 December 2020	<b>(128)</b>	<b>(3 575)</b>	<b>(11 574)</b>	<b>(2 112)</b>	<b>(27 143)</b>	<b>(7 182)</b>	<b>(39 213)</b>	<b>(45 973)</b>	<b>(141 002)</b>	<b>(277 902)</b>

Credit loss allowance <b>CONSOLIDATED</b>	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			<b>Total</b>
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
	At 1 January 2021	(128)	(3 575)	(11 574)	(2 112)	(27 143)	(8 231)	(39 213)	(45 973)	
Increases due to origination	(78)	(1 484)	(1 981)	-	(1 784)	(413)	-	-	-	<b>(5 740)</b>
Decrease due to derecognition /full repayment/	9	722	1 365	183	4 579	888	3 330	2 132	10 354	<b>23 562</b>
Decrease in allowance account due to write-offs	-	-	-	-	-	-	19 602	20 843	55 468	<b>95 913</b>
Other adjustments (Unwinding)	-	-	2	-	-	(13)	-	-	3 721	<b>3 710</b>
Changes due to changes in model/methodology	-	-	-	-	-	1 031	-	-	-	<b>1 031</b>
Changes due to change in credit risk (net)	107	1 497	6 749	748	5 533	(2 587)	(6 536)	(10 518)	(26 547)	<b>(31 554)</b>
At 31 December 2021	<b>(90)</b>	<b>(2 840)</b>	<b>(5 439)</b>	<b>(1 181)</b>	<b>(18 815)</b>	<b>(9 325)</b>	<b>(22 817)</b>	<b>(33 516)</b>	<b>(100 002)</b>	<b>(194 025)</b>

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 <b>CONSOLIDATED</b>	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			<b>Total</b>
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2020	(292)	(3 128)	(18 725)	(1 451)	(6 417)	(8 896)	(49 983)	(42 554)	(220 180)	<b>(351 626)</b>
Increases due to origination	(299)	(1 449)	(2 899)	(12)	(2 077)	(410)	-	-	-	<b>(7 146)</b>
Decrease due to derecognition /full repayment/	10	584	1 209	70	808	1 412	527	2 175	5 201	<b>11 996</b>
Decrease in allowance account due to write-offs	-	-	-	-	-	-	5 633	14 622	94 870	<b>115 125</b>
Other adjustments (Unwinding)	-	-	-	-	-	-	-	-	6 393	<b>6 393</b>
Changes due to changes in model/methodology	602	2 687	12 540	1 407	(2 744)	6 637	5 279	4 965	3 152	<b>34 525</b>
Changes due to change in credit risk (net)	(149)	(2 269)	(3 699)	(2 126)	(16 713)	(6 974)	(669)	(25 181)	(32 434)	<b>(90 214)</b>
At 31 December 2020	<b>(128)</b>	<b>(3 575)</b>	<b>(11 574)</b>	<b>(2 112)</b>	<b>(27 143)</b>	<b>(8 231)</b>	<b>(39 213)</b>	<b>(45 973)</b>	<b>(142 998)</b>	<b>(280 947)</b>

1. The P&L charge for 2021 not included in ECL movement relates to collection expenses at the amount of BGN 1 404 thousand and BGN 1 457 thousand (2020: BGN 1 961 thousand on individual level and BGN 2 082 thousand on consolidated level), respectively on individual and consolidation level, as well as income from written-off loans at the amount of BGN 14 256 thousand both on individual and consolidated base (2020: BGN 7 848 thousand both on individual and consolidated base).

2. During the year the gross amount of written-off loans (incl. derecognition of loans due to sale to third party) is BGN 95 913 thousand on individual and consolidate base (2020: BGN 114 833 thousand on individual base and BGN 115 125 on consolidate base).

3. The tables above do not include the stage transfers embedded underlying in the management overlay of the forecasted collective Covid-19 ECL, as these are determined based on a collective statistical approach and hence cannot be individually linked to specific credits.

4. Consumer loans include Credit cards and Overdrafts.

#### (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 764 thousand at 31 December 2021 (2020: 2 574 thousand). A corresponding change towards the upside assumptions would result in a decrease in ECL by BGN 444 thousand at 31 December 2021 (2020: 1 159 thousand).

The deviation comparing the previous year is related to the following elements:

- Changing in the weights of IFRS 9 scenario related to the evolution of COVID situation – from 55% Base, 10% Up, 35% Down to 80% Base, 10% Up, 10% Down.
- Improving of the macroeconomic variables related to the improved COVID situation compared to the end of 2020.

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

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	<b>SEPARATE</b>	<b>SEPARATE</b>	<b>CONSOLIDATED</b>	<b>CONSOLIDATED</b>
Bulgarian government securities <i>listed on official stock markets</i>	6 746	19 975	6 746	19 975
Mutual Funds	-	2 277	-	2 277
<b>TOTAL</b>	<b>6 746</b>	<b>22 252</b>	<b>6 746</b>	<b>22 252</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

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 31.12.2021		
<b>SEPARATE</b>		
Currency	Fixed interest	Total
BGN	6 736	6 736
EUR	10	10
<b>TOTAL</b>	<b>6 746</b>	<b>6 746</b>

As of 31.12.2020			
<b>SEPARATE</b>			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	13 087	2 277	15 364
EUR	6 888	-	6 888
<b>TOTAL</b>	<b>19 975</b>	<b>2 277</b>	<b>22 252</b>

As of 31.12.2021		
<b>CONSOLIDATED</b>		
Currency	Fixed interest	Total
BGN	6 736	6 736
EUR	10	10
<b>TOTAL</b>	<b>6 746</b>	<b>6 746</b>

As of 31.12.2020			
<b>CONSOLIDATED</b>			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	13 087	2 277	15 364
EUR	6 888	-	6 888
<b>TOTAL</b>	<b>19 975</b>	<b>2 277</b>	<b>22 252</b>

As of 31.12.2021		
<b>SEPARATE AND CONSOLIDATED</b>		
Fair value measurement	Level 1	Total
Government securities	6 746	6 746
<b>TOTAL</b>	<b>6 746</b>	<b>6 746</b>

As of 31.12.2020		
<b>SEPARATE AND CONSOLIDATED</b>		
Fair value measurement	Level 1	Total
Government securities	19 975	19 975
Mutual Funds	2 277	2 277
<b>TOTAL</b>	<b>22 252</b>	<b>22 252</b>

#### Rating "Moody's"

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	<b>SEPARATE</b>	<b>SEPARATE</b>	<b>CONSOLIDATED</b>	<b>CONSOLIDATED</b>
BBB	6 746	19 975	6 746	19 975
Unrated (Not rated)	-	2 277	-	2 277
<b>TOTAL</b>	<b>6 746</b>	<b>22 252</b>	<b>6 746</b>	<b>22 252</b>



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 15. FINANCIAL ASSETS AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Financial assets at fair value through OCI</b>				
<b>Bulgarian government securities (Stage 1)*</b>				
Listed on official stock markets	650 516	705 570	650 516	705 570
Unlisted	32 010	33 183	32 010	33 183
(Impairments)	(122)	(139)	(122)	(139)
<b>Net amount after impairments</b>	<b>682 404</b>	<b>738 614</b>	<b>682 404</b>	<b>738 614</b>
<b>Foreign government securities (Stage 1)</b>				
Listed on official stock markets	38 148	42 529	38 148	42 529
Unlisted	6	23 372	6	23 372
(Impairments)	(14)	(19)	(14)	(19)
<b>Net amount after impairments</b>	<b>38 140</b>	<b>65 882</b>	<b>38 140</b>	<b>65 882</b>
<b>Equity securities FVOCI</b>				
<b>Equity securities in local entities</b>				
Listed on official stock markets	630	343	630	343
Unlisted	9 953	9 977	9 953	9 977
<b>TOTAL</b>	<b>10 583</b>	<b>10 320</b>	<b>10 583</b>	<b>10 320</b>
<b>Equity securities in foreign entities</b>				
Unlisted	6 626	7 557	6 626	7 557
<b>Equity securities in foreign entities</b>	<b>6 626</b>	<b>7 557</b>	<b>6 626</b>	<b>7 557</b>
<b>TOTAL</b>	<b>737 753</b>	<b>822 373</b>	<b>737 753</b>	<b>822 373</b>

\*Part of the owned Bulgarian government securities are pledged for budget attracted funds at the amount of BGN 93 524 thousand as at 31 December 2021 (2020: BGN 96 506 thousand).

The major part of equity securities represents participations in companies providing services to the financial sector.

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

As of 31.12.2021			
SEPARATE			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	156 021	10 582	166 603
USD	17 624	6 520	24 144
EUR	546 899	107	547 006
<b>TOTAL</b>	<b>720 544</b>	<b>17 209</b>	<b>737 753</b>
As of 31.12.2020			
SEPARATE			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	214 577	10 320	224 897
USD	15 884	7 334	23 218
EUR	574 035	223	574 258
<b>TOTAL</b>	<b>804 496</b>	<b>17 877</b>	<b>822 373</b>
As of 31.12.2021			
CONSOLIDATED			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	156 021	10 582	166 603
USD	17 624	6 520	24 144
EUR	546 899	107	547 006
<b>TOTAL</b>	<b>720 544</b>	<b>17 209</b>	<b>737 753</b>
As of 31.12.2020			
CONSOLIDATED			
Currency	Fixed interest	Non-Interest bearing	Total
BGN	214 577	10 320	224 897
USD	15 884	7 334	23 218
EUR	574 035	223	574 258
<b>TOTAL</b>	<b>804 496</b>	<b>17 877</b>	<b>822 373</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

Equity investments have been classified under the currency categories based on the currency of the countries which they were incorporated in.

As of 31.12.2021

SEPARATE			
Fair value measurement	Level 1	Level 3	Total
Government securities	720 544	-	720 544
Equity securities FVOCI	636	16 573	17 209
<b>TOTAL</b>	<b>721 180</b>	<b>16 573</b>	<b>737 753</b>

As of 31.12.2020

SEPARATE			
Fair value measurement	Level 1	Level 3	Total
Government securities	804 496	-	804 496
Equity securities FVOCI	1 810	16 067	17 877
<b>TOTAL</b>	<b>806 306</b>	<b>16 067</b>	<b>822 373</b>

As of 31.12.2021

CONSOLIDATED			
Fair value measurement	Level 1	Level 3	Total
Government securities	720 544	-	720 544
Equity securities FVOCI	636	16 573	17 209
<b>TOTAL</b>	<b>721 180</b>	<b>16 573</b>	<b>737 753</b>

As of 31.12.2020

CONSOLIDATED			
Fair value measurement	Level 1	Level 3	Total
Government securities	804 496	-	804 496
Equity securities FVOCI	1 810	16 067	17 877
<b>TOTAL</b>	<b>806 306</b>	<b>16 067</b>	<b>822 373</b>

## 16. SECURITIES AT AMORTIZED COST

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Bulgarian government securities after impairments (Stage 1)*</b>	<b>2 061 248</b>	<b>1 684 133</b>	<b>2 061 248</b>	<b>1 684 133</b>
listed on official stock markets	1 013 898	1 020 667	1 013 898	1 020 667
Unlisted (Impairments)	1 047 751 (401)	663 795 (329)	1 047 751 (401)	663 795 (329)
<b>Foreign government securities after impairments (Stage 1)</b>	<b>593 384</b>	<b>458 128</b>	<b>593 384</b>	<b>458 128</b>
listed on official stock markets	303 741	317 602	303 741	317 602
Unlisted (Impairments)	289 714 (71)	140 561 (35)	289 714 (71)	140 561 (35)
<b>Debt securities of corporate entities (Stage 3)</b>	<b>1 101</b>	<b>2 387</b>	<b>1 101</b>	<b>2 387</b>
Non-performing (Impairments)	2 860 (1 759)	6 803 (4 416)	2 860 (1 759)	6 803 (4 416)
<b>TOTAL</b>	<b>2 655 733</b>	<b>2 144 648</b>	<b>2 655 733</b>	<b>2 144 648</b>

\*Part of the owned Bulgarian government securities are pledged for budget attracted funds at the amount of BGN 162 095 thousand as at 31 December 2021 (2020: BGN 128 982 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 16. SECURITIES AT AMORTIZED COST (CONTINUED)

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

As of 31.12.2021		
SEPARATE		
Currency	Fixed interest	Total
BGN	949 727	949 727
USD	134 156	134 156
EUR	1 571 850	1 571 850
<b>TOTAL</b>	<b>2 655 733</b>	<b>2 655 733</b>

As of 31.12.2020		
SEPARATE		
Currency	Fixed interest	Total
BGN	592 639	592 639
USD	78 722	78 722
EUR	1 473 287	1 473 287
<b>TOTAL</b>	<b>2 144 648</b>	<b>2 144 648</b>

As of 31.12.2021		
CONSOLIDATED		
Currency	Fixed interest	Total
BGN	949 727	949 727
USD	134 156	134 156
EUR	1 571 850	1 571 850
<b>TOTAL</b>	<b>2 655 733</b>	<b>2 655 733</b>

As of 31.12.2020		
CONSOLIDATED		
Currency	Fixed interest	Total
BGN	592 639	592 639
USD	78 722	78 722
EUR	1 473 287	1 473 287
<b>TOTAL</b>	<b>2 144 648</b>	<b>2 144 648</b>

As of 31.12.2021			
SEPARATE AND CONSOLIDATED			
Fair value measurement	Level 1	Level 3	Total
Government securities	2 654 632	-	2 654 632
Debt securities of corporate entities	-	1 101	1 101
<b>TOTAL</b>	<b>2 654 632</b>	<b>1 101</b>	<b>2 655 733</b>

As of 31.12.2020			
SEPARATE AND CONSOLIDATED			
Fair value measurement	Level 1	Level 3	Total
Government securities	2 142 261	-	2 142 261
Debt securities of corporate entities	-	2 387	2 387
<b>TOTAL</b>	<b>2 142 261</b>	<b>2 387</b>	<b>2 144 648</b>

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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**17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

	SEPARATE AND CONSOLIDATED			SEPARATE AND CONSOLIDATED		
	31.12.2021			31.12.2020		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
Assets		Liabilities	Assets		Liabilities	
Derivatives held for trading	<b>1 706 999</b>	<b>25 002</b>	<b>2 118</b>	<b>1 728 449</b>	<b>5 928</b>	<b>39 904</b>
Of which currency forwards	281 574	416	484	575 821	3 665	562
Of which currency swaps	1 392 558	24 454	1 508	1 152 628	2 263	39 342
Of which Open forwards	15 048	80	21	-	-	-
Of which Interest Rate swaps	17 819	52	105	-	-	-
Hedging derivatives	<b>117 350</b>	-	<b>3 912</b>	<b>117 350</b>	-	<b>6 737</b>
Of which Interest Rate swaps	<b>117 350</b>	-	<b>3 912</b>	117 350	-	6 737
<b>Total derivative financial instruments</b>	<b>1 824 349</b>	<b>25 002</b>	<b>6 030</b>	<b>1 845 799</b>	<b>5 928</b>	<b>46 641</b>

	SEPARATE AND CONSOLIDATED	
	31.12.2021	31.12.2020
<b>Net result from FV hedges</b>		
Change in the fair value of hedging instruments (interest rate swaps) due to the hedged risk	4 027	(679)
Adjustments for credit risk of hedging derivatives - CVA net of DVA	(115)	(15)
Net change in fair value of hedging instruments	3 912	(694)
Net change in fair value of hedged asset's value due to hedged risk	(4 027)	679
<b>Net result from FV hedges recognized in the statement of profit or loss</b>	<b>(115)</b>	<b>(15)</b>

The table below presents summary for hedging derivatives as of 31 December 2021:

HEDGING DERIVATIVES	SEPARATE AND CONSOLIDATED										
	Hedging instrument					Hedged item					Impact of equity
As of 31.12.2021	Notional amounts		Carrying value	Change in fair value of hedging items used as basis for recognizing hedge ineffectiveness for the period	Type	Total (including fair value changes)	Carrying value	Change in fair value of hedged items used as basis for recognizing hedge ineffectiveness for the period	Ineffective portion recognized in profit or loss	Effective portion recognized in OCI	
<b>Hedging strategy</b>	Purchased	Sold	Assets	Liabilities							
<b>Fair value hedge</b>											
Interest Rate swaps	117 350	117 350	-	3 912	(2 940)	Debt securities held at FVOCI	129 116	-	(4 496)	(115)	(1 556)
<b>Total</b>	<b>117 350</b>	<b>117 350</b>	<b>-</b>	<b>3 912</b>	<b>(2 940)</b>	<b>Total</b>	<b>129 116</b>	<b>-</b>	<b>(4 496)</b>	<b>(115)</b>	<b>(1 556)</b>

1. In this table, both legs of the derivatives are reported in the notional amounts.
2. Ineffectiveness is recognized in profit or loss.



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All amounts are in thousand Bulgarian Levs, unless otherwise stated

**17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

The table below presents summary for hedging derivatives as of 31 December 2020:

HEDGING DERIVATIVES		SEPARATE AND CONSOLIDATED							Hedged item	Impact of equity	
		Carrying value		Change in fair value of hedging items used as basis for recognizing hedge ineffectiveness for the period	Type	Carrying value	Change in fair value of hedged items used as basis for recognizing hedge ineffectiveness for the period	Ineffective portion recognized in profit or loss		Effective portion recognized in OCI	
As of 31.12.2020	Notional amounts										
Hedging strategy	Purchased	Sold	Assets	Liabilities							
<b>Fair value hedge</b>											
Interest Rate swaps	117 350	117 350	-	6 737	579	Debt securities held at FVOCI	133 909	-	(1 493)	(15)	(2 162)
<b>Total</b>	<b>117 350</b>	<b>117 350</b>	<b>-</b>	<b>6 737</b>	<b>579</b>	<b>Total</b>	<b>133 909</b>	<b>-</b>	<b>(1 493)</b>	<b>(15)</b>	<b>(2 162)</b>

1. In this table, both legs of the derivatives are reported in the notional amounts.
2. Ineffectiveness is recognized in profit or loss.

**18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES**

Subsidiaries are consolidated applying full consolidation method.

Investments in associated companies as of 31 December 2021, respectively 31 December 2020 are accounted for using the equity method.

As of 31.12.2021

**SEPARATE**

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
UBB Factoring EOOD	Bulgaria	100%	30 000	BGN	3 000	3 000
UBB Insurance Broker EAD	Bulgaria	100%	500 000	BGN	2 610	2 610
East Golf Properties EOOD	Bulgaria	100%	9 146 365	BGN	10 646	10 646
UBB Centre Management EOOD	Bulgaria	100%	6 992	BGN	-	-
Drujestvo za Kasovi Uslugi AD	Bulgaria	25%	3 125	BGN	2 976	2 976
<b>Total investments in subsidiaries and associated companies</b>					<b>19 232</b>	<b>19 232</b>

As of 31.12.2020

**SEPARATE**

Company name	Country of incorporation	% of ownership	Number of shares	Currency of transaction	Acquisition cost	Carrying value
UBB Factoring EOOD	Bulgaria	100%	30 000	BGN	3 000	3 000
UBB Insurance Broker EAD	Bulgaria	100%	500 000	BGN	2 610	2 610
East Golf Properties EOOD	Bulgaria	100%	10 646 365	BGN	12 146	12 146
UBB Centre Management EOOD	Bulgaria	100%	6 992	BGN	-	-
Drujestvo za Kasovi Uslugi AD	Bulgaria	25%	3 125	BGN	2 976	2 976
<b>Total investments in subsidiaries and associated companies</b>					<b>20 732</b>	<b>20 732</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 18. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES (CONTINUED)

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

As of 31.12.2021						
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	3 416
<b>Total investments in associates</b>					<b>2 976</b>	<b>3 416</b>

As of 31.12.2020						
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	3 477
<b>Total investments in associates</b>					<b>2 976</b>	<b>3 477</b>

Summarised financial information for the associates of UBB:

### Movement in investment in associates

	As of 31.12.
BALANCE AS OF 1 JANUARY 2020	3 560
Payments of dividends	(478)
Income from equity method investments	395
BALANCE AS OF 31 DECEMBER 2020	<b>3 477</b>
Payments of dividends	(300)
Income from equity method investments	243
Other	(4)
BALANCE AS OF 31 DECEMBER 2021	<b>3 416</b>

	As of 31.12.2021	As of 31.12.2020
	Druzhestvo za Kasovi Uslugi	Druzhestvo za Kasovi Uslugi
Carrying amount	3 416	3 477
Revenue	8 063	8 194
Depreciation and amortization	1 147	1 216
Gross profit from continuing operation	1 081	1 514
Net profit for the year	973	1 363
Other comprehensive income	(14)	(35)
Total comprehensive income	959	(35)
Group's share of profits of associates	243	341
Dividends distributed	1 200	1 913
% Holding	25%	25%
Statement of financial position:	16 117	15 296
Current assets	9 265	9 475
incl. cash and cash equivalents	7 632	8 149
Non-current assets	6 852	5 821
Current liabilities	726	455
Current liabilities (excl. trade and other payables and provisions)	19	142
Non-current liabilities	1 127	336
Non-current liabilities (excl. trade and other payables and provisions)	30	38

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 19. INTANGIBLE ASSETS, PROPERTY AND EQUIPMENT

Intangible assets, property and equipment as of 31 December 2021 are as follows:

SEPARATE					
	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets*	Total
<b>COST</b>					
As of 1 January 2021	128 732	139 142	<b>267 874</b>	61 109	<b>328 983</b>
Additions	907	18 109	<b>19 016</b>	16 746	<b>35 762</b>
Disposals	(7 508)	(23 482)	<b>(30 990)</b>	(28 357)	<b>(59 347)</b>
Transfers	(228)	(9 975)	<b>(10 203)</b>	(7 756)	<b>(17 959)</b>
As of 31 December 2021	<b>121 903</b>	<b>123 794</b>	<b>245 697</b>	<b>41 742</b>	<b>287 439</b>
<b>DEPRECIATION/ AMORTIZATION</b>					
As of 1 January 2021	(57 470)	(105 837)	<b>(163 307)</b>	(50 404)	<b>(213 711)</b>
Charge for 2021	(2 930)	(10 214)	<b>(13 144)</b>	(3 403)	<b>(16 547)</b>
Impairments for 2021	(121)	(140)	<b>(261)</b>	(895)	<b>(1 156)</b>
Transfers	16	(16)	-	-	-
Depreciation/Amortization charged on disposals	5 183	23 105	<b>28 288</b>	28 357	<b>56 645</b>
As of 31 December 2021	(55 322)	(93 102)	<b>(148 424)</b>	(26 345)	<b>(174 769)</b>
<b>NET BOOK VALUE</b>	<b>66 581</b>	<b>30 692</b>	<b>97 273</b>	<b>15 397</b>	<b>112 670</b>

\*Intangible assets include software products, other rights- licenses etc.

CONSOLIDATED					
	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets*	Total
<b>COST</b>					
As of 1 January 2021	128 732	139 491	<b>268 223</b>	62 049	<b>330 272</b>
Additions	907	18 131	<b>19 038</b>	16 867	<b>35 905</b>
Disposals	(7 508)	(23 482)	<b>(30 990)</b>	(28 357)	<b>(59 347)</b>
Transfers	(228)	(9 975)	<b>(10 203)</b>	(7 756)	<b>(17 959)</b>
As of 31 December 2021	<b>121 903</b>	<b>124 165</b>	<b>246 068</b>	<b>42 803</b>	<b>288 871</b>
<b>DEPRECIATION/ AMORTIZATION</b>					
As of 1 January 2021	(57 470)	(106 118)	<b>(163 588)</b>	(50 814)	<b>(214 402)</b>
Charge for 2021	(2 931)	(10 241)	<b>(13 172)</b>	(3 423)	<b>(16 595)</b>
Impairments for 2021	(121)	(140)	<b>(261)</b>	(895)	<b>(1 156)</b>
Transfers	16	(16)	-	-	-
Depreciation/Amortization charged on disposals	5 184	23 105	<b>28 289</b>	28 357	<b>56 646</b>
As of 31 December 2021	(55 322)	(93 410)	<b>(148 732)</b>	(26 775)	<b>(175 507)</b>
<b>NET BOOK VALUE</b>	<b>66 581</b>	<b>30 755</b>	<b>97 336</b>	<b>16 028</b>	<b>113 364</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

Intangible assets, property and equipment as of 31 December 2020 are as follows:

SEPARATE					
	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets*	Total
<b>COST</b>					
As of 1 January 2020	128 001	140 100	<b>268 101</b>	54 903	<b>323 004</b>
Additions	1 380	20 485	<b>21 865</b>	10 095	<b>31 960</b>
Disposals	(649)	(9 083)	<b>(9 732)</b>	(21)	<b>(9 753)</b>
Transfers	-	(12 360)	<b>(12 360)</b>	(3 868)	<b>(16 228)</b>
As of 31 December 2020	128 732	139 142	<b>267 874</b>	61 109	<b>328 983</b>
<b>DEPRECIATION/ AMORTIZATION</b>					
As of 1 January 2020	(54 934)	(104 517)	<b>(159 451)</b>	(46 748)	<b>(206 199)</b>
Charge for 2020	(2 910)	(10 333)	<b>(13 243)</b>	(3 308)	<b>(16 551)</b>
Impairments for 2020	-	-	-	(369)	<b>(369)</b>
Depreciation/Amortization charged on disposals	374	9 013	<b>9 387</b>	21	<b>9 408</b>
As of 31 December 2020	(57 470)	(105 837)	<b>(163 307)</b>	(50 404)	<b>(213 711)</b>
<b>NET BOOK VALUE</b>	<b>71 262</b>	<b>33 305</b>	<b>104 567</b>	<b>10 705</b>	<b>115 272</b>

CONSOLIDATED					
	Land and buildings	Equipment and other assets	Total property and equipment	Intangible assets*	Total
<b>COST</b>					
As of 1 January 2020	128 001	140 439	<b>268 440</b>	55 373	<b>323 813</b>
Additions	1 380	20 495	<b>21 875</b>	10 565	<b>32 440</b>
Disposals	(649)	(9 083)	<b>(9 732)</b>	(21)	<b>(9 753)</b>
Transfers	-	(12 360)	<b>(12 360)</b>	(3 868)	<b>(16 228)</b>
As of 31 December 2020	128 732	139 491	<b>268 223</b>	62 049	<b>330 272</b>
<b>DEPRECIATION/ AMORTIZATION</b>					
As of 1 January 2020	(54 934)	(104 770)	<b>(159 704)</b>	(47 129)	<b>(206 833)</b>
Charge for 2020	(2 910)	(10 388)	<b>(13 298)</b>	(3 311)	<b>(16 609)</b>
Impairments for 2020	-	-	-	(369)	<b>(369)</b>
Depreciation/Amortization charged on disposals	374	9 040	<b>9 414</b>	(5)	<b>9 409</b>
As of 31 December 2020	(57 470)	(106 118)	<b>(163 588)</b>	(50 814)	<b>(214 402)</b>
<b>NET BOOK VALUE</b>	<b>71 262</b>	<b>33 373</b>	<b>104 635</b>	<b>11 235</b>	<b>115 870</b>

## 20. INVESTMENT PROPERTIES

	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of 1 January 2021	153 721	165 276
Additions	12 609	12 609
Transfers	(170)	(170)
Disposals	(28 084)	(29 602)
As of 31 December 2021	138 076	148 113
<b>DEPRECIATION</b>		
As of 1 January 2021	(26 379)	(28 250)
Charge for 2021	(3 031)	(3 366)
Depreciation/Amortization charged on disposals	9 102	9 330
Impairment for the period	(489)	(489)
As of 31 December 2021	(20 797)	(22 775)
<b>NET BOOK VALUE</b>	<b>117 279</b>	<b>125 338</b>



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 20. INVESTMENT PROPERTIES (CONTINUED)

	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of 1 January 2020	143 850	155 405
Additions	11 746	11 746
Transfers	5 909	5 909
Disposals	(7 784)	(7 784)
As of 31 December 2020	153 721	165 276
<b>DEPRECIATION</b>		
As of 1 January 2020	(17 506)	(18 652)
Charge for 2020	(2 929)	(3 307)
Depreciation/Amortization charged on disposals	762	762
Transfers	(6 685)	(7 032)
Impairment for the period	(21)	(21)
As of 31 December 2020	(26 379)	(28 250)
<b>NET BOOK VALUE</b>	<b>127 342</b>	<b>137 026</b>

The fair value of the investment property held by UBB as at 31 December 2021 and as at 31 December 2020 does not differ substantially from their carrying amount. The fair value (Level 3) is determined by independent certified appraisers performed regularly at the end of each reporting period.

Direct operating expenses related to investment properties which do not generate rental income amount to BGN 1 289 thousand as at 31 December 2021 (2020: BGN 1 685 thousand). Direct expenses and rental income are disclosed in Note 7.

Contractual obligations for construction or development of investment property amount to BGN 491 thousand as at 31 December 2021 (2020: BGN 197 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	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Residential	3 535	2 924	3 535	2 924
Vacation	11 579	13 907	20 035	23 988
Industrial	14 343	22 500	14 343	22 500
Plots (land)	21 146	30 501	21 146	30 501
Commercial	40 458	43 887	40 458	43 887
Millennium center (investment office building)	48 855	48 855	48 855	48 855
Fair value of investment property	<b>139 916</b>	<b>162 574</b>	<b>148 372</b>	<b>172 655</b>

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)	
			2020	2021
Residential	RVM	Standard construction prices per sq. m. Annual growth of standard and construction prices	€ 320 - € 420 5.0%	€ 400 - € 550 5%
	MVM	Offer (deal) price per sq. m. Annual growth of market comparatives (real deals)	215€ - 745€ 1.10%	€ 300 - € 750 1.10%
Vacation properties	RVM	Standard construction prices per sq. m. Annual growth of standard and construction prices	n/a 5%	n/a 5%
	MVM	Offer (deal) price per sq. m. Annual growth of market comparatives (real deals)	300€ - 920€ -	300€ - 620€ -
Industrial properties	RVM	Standard construction prices per sq. m. Annual growth of standard and construction prices	€ 100 - € 420 5%	€ 200 - € 570 5%
	MVM	Offer (deal) price per sq. m. Annual growth of market comparatives (real deals)	€ 40 - € 325 -	€ 150 - € 400 -
	MCFCF	Estimated monthly rent per Annual growth of rent rates Long-term vacancy Rate of return	€ 0.5 - € 4 3% 3% 6% - 8%	€ 0.5 - € 4.5 3% 5% 6% - 8%
Plots (land)	MVM	Offer (deal) price per sq. m. Annual growth of market comparatives (real deals)	€ 2 - € 699 -	€ 5 - € 700 -
Commercial properties	MVM	Offer (deal) price per sq. m. Annual growth of market comparatives (real deals)	€ 230 - € 850 1%	€ 230 - € 951 3%
	MCFCF	Estimated monthly rent per sq. m. Annual growth of rent rates Long-term vacancy Rate of return	€ 2.5 - € 15 0% 5% - 10% 6.5% - 7.5%	€ 2.5 - € 35 0% 5% - 10% 6.5% - 7.5%

The valuation techniques used for valuation of investment properties are recovery value method (“RVM”), market value method (“MVM”) and cash flow method (“MCFCF”).

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

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Right-of-use assets</b>				
Buildings	21 751	21 760	21 847	21 855
Vehicles	419	283	419	283
	<b>22 170</b>	<b>22 043</b>	<b>22 266</b>	<b>22 138</b>

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Lease liabilities</b>				
Current	8 246	8 359	8 246	5 198
Non-current	13 939	13 704	14 037	16 962
	<b>22 185</b>	<b>22 063</b>	<b>22 283</b>	<b>22 160</b>

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Lease liabilities</b>				
<b>Balance at 1 January 2021</b>	22 063	28 010	22 160	28 088
Cash flows on principal repayment	(9 483)	(9 772)	(9 482)	(9 753)
Adjustment for new/terminated contracts	9 605	3 825	9 605	3 825
<b>Balance at 31 December 2021</b>	<b>22 185</b>	<b>22 063</b>	<b>22 283</b>	<b>22 160</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

Right-of use asset	SEPARATE			CONSOLIDATED		
	Buildings	Vehicles	Total	Buildings	Vehicles	Total
<b>Cost</b>						
As at 1 January 2021	37 666	581	38 247	37 841	608	38 449
Additions – new lease contracts	10 515	383	10 898	10 554	383	10 937
Termination of lease contracts	(7 587)	(243)	(7 830)	(7 587)	(243)	(7 830)
As at 31 December 2021	40 594	721	41 315	40 808	748	41 556
<b>Accumulated depreciation:</b>						
As at 1 January 2021	(15 906)	(298)	(16 204)	(15 986)	(325)	(16 311)
Charge for 2021	(9 085)	(226)	(9 311)	(9 123)	(226)	(9 349)
Depreciation/Amortization charged on disposals	6 148	222	6 370	6 148	222	6 370
As at 31 December 2021	(18 843)	(302)	(19 145)	(18 961)	(329)	(19 290)
Net Book Value as at 1 January 2021	21 760	283	22 043	21 855	283	22 138
<b>Net Book Value as at 31 December 2021</b>	<b>21 751</b>	<b>419</b>	<b>22 170</b>	<b>21 847</b>	<b>419</b>	<b>22 266</b>

Right-of use asset	SEPARATE			CONSOLIDATED		
	Buildings	Vehicles	Total	Buildings	Vehicles	Total
<b>Cost</b>						
As at 1 January 2020	37 287	489	37 776	37 367	516	37 883
Additions – new lease contracts	5 940	92	6 032	6 035	92	6 127
Termination of lease contracts	(5 561)		(5 561)	(5 561)		(5 561)
As at 31 December 2020	37 666	581	38 247	37 841	608	38 449
<b>Accumulated depreciation:</b>						
As at 1 January 2020	(9 639)	(144)	(9 783)	(9 652)	(147)	(9 799)
Charge for 2020	(9 412)	(151)	(9 563)	(9 439)	(151)	(9 590)
Depreciation/Amortization charged on disposals	3 145	(3)	3 142	3 105	(27)	3 078
As at 31 December 2020	(15 906)	(298)	(16 204)	(15 986)	(325)	(16 311)
Net Book Value as at 1 January 2020	27 648	345	27 993	27 715	369	28 084
<b>Net Book Value as at 31 December 2020</b>	<b>21 760</b>	<b>283</b>	<b>22 043</b>	<b>21 855</b>	<b>283</b>	<b>22 138</b>

## 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 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Deferred tax assets:</b>				
Retirement benefit obligations	565	617	565	617
Fixed assets and investment properties	1 001	2 437	1 001	2 437
Provisions for legal cases	130	55	130	55
Other employee benefits	1 348	1 258	1 348	1 258
Other temporary differences	1 486	1 325	1 611	1 534
IFRS 16	2	2	2	2
<b>Total Deferred tax assets</b>	<b>4 532</b>	<b>5 694</b>	<b>4 657</b>	<b>5 903</b>
<b>Deferred tax liabilities:</b>				
Securities – available for sale	(454)	(454)	(454)	(454)
IFRS 16	-	-	1	1
Other temporary differences	-	-	-	-
<b>Total Deferred tax liabilities</b>	<b>(454)</b>	<b>(454)</b>	<b>(453)</b>	<b>(453)</b>
<b>Recognized in the statement of financial position as follows:</b>				
Deferred tax assets:	4 078	5 240	4 204	5 450
Deferred tax liabilities:	-	-	1	1

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## 22. DEFERRED TAX (CONTINUED)

MOVEMENT IN DEFERRED TAXES	SEPARATE As of 31.12.2020	SEPARATE Recognized during the period in profit or loss	SEPARATE Recognized during the period in equity	SEPARATE As of 31.12.2021
<b>Deferred tax assets:</b>				
Retirement benefit obligations	617	(12)	(40)	565
Fixed assets and investment properties	2 437	(1 436)	-	1 001
Provisions for legal cases	55	75	-	130
Other employee benefits	1 258	90	-	1 348
Other temporary differences	1 325	161	-	1 486
IFRS 16	2	-	-	2
<b>Total Deferred tax assets</b>	<b>5 694</b>	<b>(1 122)</b>	<b>(40)</b>	<b>4 532</b>
<b>Deferred tax liabilities:</b>				
Financial assets – FVOCI	(454)	-	-	(454)
IFRS 16	-	-	-	-
<b>Total Deferred tax liabilities</b>	<b>(454)</b>	<b>-</b>	<b>-</b>	<b>(454)</b>
	<b>5 240</b>	<b>(1 122)</b>	<b>(40)</b>	<b>4 078</b>

## 23. OTHER ASSETS

Financial other assets	As of 31.12.2021	As of 31.12.2020	As of 31.12.2020	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Receivables from clients*	-	344	-	344
<b>Total financial other assets</b>	<b>-</b>	<b>344</b>	<b>-</b>	<b>344</b>

Non-financial other assets	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Assets acquired through foreclosure proceedings	10 200	17 310	10 200	17 310
Prepaid expenses	2 161	1 899	2 213	1 944
Accrued Income from clients	1 860	-	1 860	-
Other	1 016	2 459	2 475	3 587
<b>Total non-financial other assets</b>	<b>15 237</b>	<b>21 668</b>	<b>16 748</b>	<b>22 841</b>
<b>Total other assets</b>	<b>15 237</b>	<b>22 012</b>	<b>16 748</b>	<b>23 185</b>

### Assets acquired through foreclosure proceedings

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Buildings	6 660	11 877	6 660	11 877
Land	3 540	5 433	3 540	5 433
<b>Total financial other assets</b>	<b>10 200</b>	<b>17 310</b>	<b>10 200</b>	<b>17 310</b>

\* Financial assets that contains client's receivables and are posted in the internal suspense accounts for payments and card transactions have been reclassified from other assets to Loans and advances to customers.

The disclosed amount of assets acquired through foreclosure proceedings is net of impairments. The related amount for impairments as of 2021 is BGN 537 thousand (2020: BGN 1 493 thousand).

## 24. DEPOSITS FROM BANKS

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Sight deposits	24 898	4 781	24 898	4 781
Time deposits	1 373 491	98 920	1 373 491	98 920
Other due to banks	38	34	38	34
<b>TOTAL</b>	<b>1 398 427</b>	<b>103 735</b>	<b>1 398 427</b>	<b>103 735</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 25. DEPOSITS FROM CUSTOMERS

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Individuals	7 175 860	6 336 901	7 175 860	6 336 902
Non-bank financial institutions	979 557	776 507	979 539	776 499
Corporate entities	3 915 097	3 402 056	3 910 674	3 397 840
Government entities	217 617	208 122	217 617	208 122
Other Financial liabilities	16 163	20 538	17 437	20 538
<b>TOTAL</b>	<b>12 304 294</b>	<b>10 744 124</b>	<b>12 301 127</b>	<b>10 739 901</b>

## 26. PAYABLES UNDER REPO AGREEMENTS

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Repurchase agreements with foreign banks	-	282 755	-	282 755
<b>Total payables on repo agreements</b>	<b>-</b>	<b>282 755</b>	<b>-</b>	<b>282 755</b>

## 27. OTHER BORROWED FUNDS

	Currency	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
		SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Credit lines from banks	EUR	111 712	68 200	191 476	68 200
<b>TOTAL</b>		<b>111 712</b>	<b>68 200</b>	<b>191 476</b>	<b>68 200</b>

Below is presented a table showing all borrowed funds with their contractual terms and corresponding carrying amounts as of 31 December 2021 and 31 December 2020 on **individual base**:

Counterparty	Description	Contract currency	Contract amount	Date of agreement	Value Date	Date of maturity	Interest rate	As of 31.12.2021	As of 31.12.2020
EBRD	Energy Efficiency Program	Euro	9.78 million BGN /5 million euro/	16.06.2016	16.06.2016	03.12.2022	Floating	-	4 959
EIB	Program for small, medium and medium-sized enterprises	Euro	97.79 million BGN /50 million euro/	14.10.2011	10.02.2012	10.02.2020	3,555%	11 046	13 501
					14.02.2012	14.02.2020	3,508%		
					01.10.2012	01.10.2020	2,584%		
	Program for small, medium and medium-sized enterprises	Euro	97.79 million BGN /50 million euro/	13.03.2014	28.04.2014	28.04.2026	2,384%	-	11 876
			09.12.2014	09.12.2024	6M EURIBOR + 0.223%				
European Development Bank	Program for small and medium enterprises	Euro	97.79 million BGN /50 million euro/	08.01.2016	30.06.2016	30.06.2026	0%	-	26 447
							15.09.2022	6M EURIBOR + 0.06 %	-
European Development Bank	Program for small and medium enterprises	Euro	97.79 million BGN /50 million euro/	02.07.2015	15.09.2019	15.09.2022	0, 48%.	2 856	5 712
KBC Bank	MREL	Euro	97.79 million BGN /50 million euro/	16.12.2021	16.12.2021	16.12.2027	0, 46%.	97 810	-
<b>TOTAL</b>								<b>111 712</b>	<b>68 200</b>

The funding with zero balances for 2021 were prepaid during the year.



All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 27. OTHER BORROWED FUNDS (CONTINUED)

Below is presented a table showing all borrowed funds with their contractual terms and corresponding carrying amounts as of 31 December 2021 and 31 December 2020 on **consolidated base**:

Counterparty	Description	Contract currency	Contract amount	Date of agreement	Value Date	Date of maturity	Interest rate	As of 31.12.2021	As of 31.12.2020
EBRD	Energy Efficiency Program	Euro	9.78 million BGN /5 million euro/	16.06.2016	16.06.2016	03.12.2022	Floating	-	4 959
EIB	Program for small, medium and medium-sized enterprises	Euro	97.79 million BGN /50 million euro/	14.10.2011	10.02.2012	10.02.2020	3,555%	11 046	13 501
					14.02.2012	14.02.2020	3,508%		
					01.10.2012	01.10.2020	2,584%		
	Program for small, medium and medium-sized enterprises	Euro	97.79 million BGN /50 million euro/	13.03.2014	28.04.2014	28.04.2026	2,384%	-	11 876
09.12.2014					09.12.2024	6M EURIBOR + 0.223%			
European Development Bank	Program for small and medium enterprises	Euro	97.79 million BGN /50 million euro/	08.01.2016	30.06.2016	30.06.2026	0%	-	26 447
					15.09.2022	15.09.2022	6M. EURIBOR + 0.06 %		
European Development Bank	Program for small and medium enterprises	Euro	97.79 million BGN /50 million euro/	02.07.2015	15.09.2019	15.09.2022	0, 48%	2 856	5 712
KBC Bank	MREL	Euro	97.79 million BGN /50 million euro/	16.12.2021	16.12.2021	16.12.2027	0, 46%	97 810	-
KBC Bank to UBB Factoring	Term loan with principle repayment schedule	Euro	39.12 million BGN /20 million euro/	09.12.2021	09.12.2021	13.12.2024	3M. EURIBOR +0.18%	39 117	-
KBC Bank to UBB Factoring	Term loan with principle repayment schedule	Bulgarian Leva	25 million BGN	19.02.2021	19.02.2021	28.02.2024	0, 26%	25 000	-
KBC Bank to UBB Factoring	Term loan with principle repayment schedule	Euro	15.65 million BGN /8 million euro/	19.02.2021	19.02.2021	28.02.2024	3M. EURIBOR +0.18%	15 647	-
<b>TOTAL</b>								<b>191 476</b>	<b>68 200</b>

## 28. PROVISIONS

### a) Provisions for risks and charges

#### Provisions for risks and charges

Provisions for legal cases	1 302	550	1 317	654
Provisions for off- balance sheet commitment	3 033	7 463	3 030	7 463
<b>TOTAL PROVISIONS FOR RISK AND CHARGES</b>	<b>4 335</b>	<b>8 013</b>	<b>4 347</b>	<b>8 117</b>

As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
1 302	550	1 317	654
3 033	7 463	3 030	7 463
<b>4 335</b>	<b>8 013</b>	<b>4 347</b>	<b>8 117</b>

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#### Provisions for Off- balance sheet position commitment movement

Undrawn Credit commitments and Financial Guarantees (Stage 1)	6 810	(4 840)	1 970
Undrawn Credit commitments and Financial Guarantees (Stage 2)	653	410	1 063
Undrawn Credit commitments and Financial Guarantees (Stage 3)	-	-	-
<b>TOTAL PROVISIONS FOR OFF-BALANCE SHEET POSITION COMMITMENT</b>	<b>7 463</b>	<b>(4 430)</b>	<b>3 033</b>

Opening balance as of 01.01.2021	Changes due to change in credit risk (net)	Ending balance as of 31.12.2021
6 810	(4 840)	1 970
653	410	1 063
-	-	-
<b>7 463</b>	<b>(4 430)</b>	<b>3 033</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 28. PROVISIONS (CONTINUED)

### b) Retirement benefit obligations

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Present value of unfunded obligations	5 653	6 173	5 653	6 173
	<b>5 653</b>	<b>6 173</b>	<b>5 653</b>	<b>6 173</b>
Amount recognized in profit and loss				
Current service cost	178	256	178	256
Net interest on the net defined benefit liability	15	12	15	12
<b>Total P&amp;L Charge</b>	<b>193</b>	<b>268</b>	<b>193</b>	<b>268</b>
Reconciliation of retirement benefit obligation				
Retirement benefit obligation at the beginning of period	6 173	6 130	6 173	6 130
Current service cost	178	256	178	256
Net interest on the net defined benefit liability	15	12	15	12
Benefits paid directly by the Bank/ Group	(314)	(261)	(314)	(261)
Actuarial loss	(399)	36	(399)	36
<b>Retirement benefit obligation at the end of period</b>	<b>5 653</b>	<b>6 173</b>	<b>5 653</b>	<b>6 173</b>
Cumulative amount recognized in the OCI, net of tax	(998)	(1 357)	(998)	(1 357)
Re-measurements				
Liability loss due to changes in assumptions	(399)	36	(399)	36
<b>Total amount recognized in OCI over the period</b>	<b>(399)</b>	<b>36</b>	<b>(399)</b>	<b>36</b>
Net liability in statement of financial position at the beginning of the period	6 173	6 130	6 173	6 130
Benefits paid directly	(314)	(261)	(314)	(261)
Total expense recognized in the statement of profit or loss	193	268	193	268
Total amount recognized in the OCI	(399)	36	(399)	36
Net liability in statement of financial position	<b>5 653</b>	<b>6 173</b>	<b>5 653</b>	<b>6 173</b>
Assumptions				
Discount rate	0.25%	0.20%	0.25%	0.20%
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.

**NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**  
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All amounts are in thousand Bulgarian Levs, unless otherwise stated

**28. PROVISIONS (CONTINUED)**

**(b) Retirement benefit obligations (continued)**

<b>Effect of the change in wage increases</b>	+0.25% (+25 bp)	-0.25% (-0.25 bp)
Effect of the change in the provision allocated as of 31.12.2021 for the retirement benefit obligation expressed in absolute values	2.2% 124 360	-2.2% (124 360)
<b>Effect of change in interest rate</b>	+0.25% (+25 bp)	-0.25% (-0.25 bp)
Effect of the change in the provision allocated as of 31.12.2021 for the retirement benefit obligation expressed in absolute values	-2.3% (130 013)	2.3% 130 013
<b>Effect of change in the stages of the dropouts</b>	1.0%	-1.0%
Effect of the change in the provision allocated as of 31.12.2021 for the retirement benefit obligation expressed in absolute values	-10.5% (593 536)	10.5% 593 536
<b>Effect of change in stages of the mortality</b>	25.0%	-25.0%
Effect of the change in the provision allocated as of 31.12.2021 for the retirement benefit obligation expressed in absolute values	-1.8% (101 749)	1.8% 101 749

**29. OTHER LIABILITIES**

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Other Financial Liabilities</b>				
Dividend payable	210	92	210	92
<b>TOTAL FINANCIAL OTHER LIABILITIES</b>	<b>210</b>	<b>92</b>	<b>210</b>	<b>92</b>
	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Non-financial other Liabilities</b>				
Payroll related accruals	16 244	15 852	16 518	16 028
Creditors and suppliers	15 277	13 361	15 386	13 453
Amounts due to government agencies	-	64	-	64
Accrued expenses and deferred income	6 732	156	6 732	156
Taxes payable - other than income taxes	1 149	1 149	1 149	1 149
Other	3 296	5 995	3 349	6 428
<b>TOTAL NON-FINANCIAL OTHER LIABILITIES</b>	<b>42 698</b>	<b>36 577</b>	<b>43 134</b>	<b>37 278</b>
<b>TOTAL OTHER LIABILITIES</b>	<b>42 908</b>	<b>36 669</b>	<b>43 344</b>	<b>37 370</b>

**30. RETAINED EARNINGS**

RETAINED EARNINGS	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Retained Earnings</b>				
Accumulated prior years' earnings at beginning of period	1 116 219	1 012 325	1 115 062	1 013 979
Profit for the year	171 114	108 804	171 945	105 934
Change in non-controlling interest	-	-	-	59
Other comprehensive income for the year, net of tax	88	(4 910)	83	(4 910)
<b>At 31 December</b>	<b>1 287 421</b>	<b>1 116 219</b>	<b>1 287 090</b>	<b>1 115 062</b>
	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Components of Retained Earnings</b>				
Statutory reserves	672 532	672 689	672 582	672 803
Undistributed profit from previous years	443 775	334 726	442 563	336 325
Profit for the year	171 114	108 804	171 945	105 934
<b>TOTAL</b>	<b>1 287 421</b>	<b>1 116 219</b>	<b>1 287 090</b>	<b>1 115 062</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 31. REVALUATION RESERVE

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Revaluation reserves -FVOCI</b>				
At the beginning of the period	60 028	61 941	60 028	61 941
Fair value changes	(15 614)	(1 913)	(15 614)	(1 913)
<b>TOTAL</b>	<b>44 414</b>	<b>60 028</b>	<b>44 414</b>	<b>60 028</b>

### 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 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Credit commitments</b>				
<b>Undrawn credit commitments</b>	<b>1 933 588</b>	<b>1 608 977</b>	<b>2 044 130</b>	<b>1 680 490</b>
Of which government entities	25 292	-	25 292	-
Of which credit institutions	14 672	10 000	14 672	10 000
Of which corporate	1 521 572	1 254 915	1 632 114	1 326 428
Of which retail	261 419	258 616	261 419	258 616
Of which other financial institutions	110 633	85 446	110 633	85 446
<b>Guarantees, documentary and commercial letters of credit</b>	<b>302 705</b>	<b>269 927</b>	<b>302 705</b>	<b>269 927</b>
Of which corporate	284 016	254 201	284 016	254 201
Of which retail	10 094	315	10 094	315
Of which other financial institutions	1 752	3 504	1 752	3 504
Of which other credit institutions	6 843	11 907	6 843	11 907
<b>Letter of credits</b>	<b>128 426</b>	<b>74 501</b>	<b>128 426</b>	<b>74 501</b>
<b>TOTAL</b>	<b>2 364 719</b>	<b>1 953 405</b>	<b>2 475 261</b>	<b>2 024 918</b>

The following table represents commitments per stages:

	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Credit commitments</b>				
<b>Undrawn Credit commitments</b>	<b>1 933 588</b>	<b>1 608 977</b>	<b>2 044 130</b>	<b>1 680 490</b>
Of which Stage 1	1 822 677	1 555 529	1 822 677	1 627 042
Of which Stage 2	110 373	52 623	220 915	52 623
Of which Stage 2	538	825	538	825
<b>Guarantees, documentary and commercial letters of credit</b>	<b>302 705</b>	<b>269 927</b>	<b>302 705</b>	<b>269 927</b>
Of which Stage 1	259 597	248 813	259 597	248 813
Of which Stage 2	42 364	19 389	42 364	19 389
Of which Stage 2	744	1 725	744	1 725
<b>Letter of Credits</b>	<b>128 426</b>	<b>74 501</b>	<b>128 426</b>	<b>74 501</b>
Of which Stage 1	124 655	74 501	124 655	74 501
Of which Stage 2	3 771		3 771	
Of which Stage 2				
<b>TOTAL</b>	<b>2 364 719</b>	<b>1 953 405</b>	<b>2 475 261</b>	<b>2 024 918</b>

*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 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	<b>SEPARATE</b>	<b>SEPARATE</b>	<b>CONSOLIDATED</b>	<b>CONSOLIDATED</b>
Cash in hand	243 722	244 413	243 722	244 413
Current accounts in Central Bank	747 047	434 887	747 047	434 887
Placements with banks with original maturity of up to 3 months	1 905 024	934 857	1 905 024	934 857
Repo deals with banks up to 3 months	445 637	195 582	445 637	195 582
<b>TOTAL</b>	<b>3 341 430</b>	<b>1 809 739</b>	<b>3 341 430</b>	<b>1 809 739</b>

The minimum reserves with the Central Bank amounting to BGN 1 171 667 thousand as at 31 December 2021 (2020: BGN 956 476 thousand) are not included in cash and cash equivalents as they are not freely at the disposal of the Bank.

### **34. FINANCIAL RISK MANAGEMENT**

*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 funds (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 retail and corporate obligors by using an internal rating system which provides probabilities of default according to a 12-level rating scale.



*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **34. FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### ***Credit risk (continued)***

UBB uses the output generated by these models to split the non-defaulted loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. The Bank assign an internal rating ranging from PD 10 to PD 12 to a defaulted obligor. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn by applying materiality rules, according regulatory requirements), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), but that do not meet the criteria for classification as PD 11 or PD 12.

For the decision making in the corporate lending activity there are levels of approving bodies depending on the size and the status of the loans under consideration.

In compliance with its risk strategy, UBB targets maintaining a 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 (Wholesale and Retail), Metals, Agriculture, Food Producers, Agriculture & Farming and Finance & Insurance.

For all segments, additional monitoring activities are performed in order to identify risk exposure arising in the loan portfolio and to take measures for internal classification and provisioning of loans in compliance with the requirements of the IFRS on a monthly basis.

UBB has adopted a NPL Strategy that is in line with regulatory requirements and aims at reaching low levels of NPL.

Credit risk exposures towards bank counterparties are approved as limits at group ALCO level. As a general rule UBB investments in securities are also aligned within KBC group depending on investment strategy and group exposures to specific countries in order to prevent undue concentrations.

#### ***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 227% 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.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

## **34. FINANCIAL RISK MANAGEMENT (CONTINUED)**

### ***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 31.12.2021 amounted to BGN 0.026 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.

### ***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 statement of financial position 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 +/- 100 bps and +/- 200 bps parallel shift in interest rates as disclosed in Note 36.

### ***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 risk but excludes strategic and reputation risk as well as compliance risk.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **34. FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### ***Operational risk (continued)***

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 - GLORY. 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.

#### ***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 prepare the Business Continuity Plan (BCP) for crisis situations as well as to coordinate the BCP testing.

#### ***Corona virus***

In 2021 UBB continued to monitor and comply with the Local Health Authority measures for safe working places ensuring distance between the staff members by weekly rotation of teams working from office/home office, providing flexible working hours, keeping internal restrictions on the number of people using elevators in the main KBC BG headquarters. All meetings and trainings were switched to online modes, business trips in the country and abroad were restricted. Individual protection and social distancing rules were strictly followed incl. increased cleaning routine in the offices, providing reusable masks, protective gloves, measuring of the temperature of staff and visitors.

Branches remained open with standard working hours. Opening hours and work on Saturday was closely monitored and managed accordingly. Promotion of the digital channels as an alternative of the physical services continued throughout the year. Vaccination of the staff was supported by the employer. Roll Back plans are reviewed and updated regularly with regards to the pandemic situation in the county.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 35. CREDIT RISK

Credit risk is summarized as follows:

#### Maximum exposure to credit risk before collateral and other credit enhancements

CREDIT RISK	As at	As at	As at	As at
	31.12.2021	31.12.2021	31.12.2021	31.12.2021
	Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Exposure				
Balances with Central bank	2 162 436	2 162 436	2 162 436	2 162 436
Loans and advances to banks	2 113 345	2 113 168	2 113 345	2 113 168
Loans and advances to customers, net	7 283 264	7 092 359	7 368 553	7 174 528
Derivative financial instruments	25 002	25 002	25 002	25 002
Financial assets at fair value through P/L	6 746	6 746	6 746	6 746
Financial assets at FVOCI	737 753	737 753	737 753	737 753
Securities at AC	2 655 733	2 655 733	2 655 733	2 655 733
<b>Total balance sheet items</b>	<b>14 984 279</b>	<b>14 793 197</b>	<b>15 069 568</b>	<b>14 875 366</b>
Commitments	1 933 588	1 933 588	2 044 130	2 044 130
<b>Total off-balance sheet positions</b>	<b>1 933 588</b>	<b>1 933 588</b>	<b>2 044 130</b>	<b>2 044 130</b>

CREDIT RISK	As at	As at	As at	As at
	31.12.2020	31.12.2020	31.12.2020	31.12.2020
	Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Exposure				
Balances with Central bank	1 635 776	1 635 776	1 635 776	1 635 776
Loans and advances to banks	940 887	940 818	940 887	940 818
Loans and advances to customers, net	6 601 934	6 324 032	6 606 044	6 325 097
Derivative financial instruments	5 928	5 928	5 928	5 928
Financial assets at fair value through P/L	22 252	22 252	22 252	22 252
Financial assets at FVOCI	822 373	822 373	822 373	822 373
Securities at AC	2 149 648	2 144 648	2 149 648	2 144 648
Financial other assets	344	344	344	344
<b>Total balance sheet items</b>	<b>12 179 142</b>	<b>11 896 171</b>	<b>12 183</b>	<b>11 897 236</b>
Commitments	1 608 977	1 608 977	1 680 490	1 680 490
<b>Total off-balance sheet positions</b>	<b>1 608 977</b>	<b>1 608 977</b>	<b>1 680 490</b>	<b>1 680 490</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 35. CREDIT RISK (CONTINUED)

#### Quality of loans and advances and collateral

SEPARATE	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	1 194 882	25 731	315 249	31 656	1 567 518
Loans secured with:					
Residential Real Estate	349	1 620 313	52 147	2 208	1 675 017
Commercial Real Estate	49	78 993	1 752 329	-	1 831 371
Cash	2 718	1	14 429	-	17 148
Other collaterals	238 762	1 236	1 885 529	66 683	2 192 210
<b>Total loans at 31.12.2021</b>	<b>1 436 760</b>	<b>1 726 274</b>	<b>4 019 683</b>	<b>100 547</b>	<b>7 283 264</b>

SEPARATE	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	1 101 557	47 109	283 343	45 937	1 477 946
Loans secured with:					
Residential Real Estate	386	1 420 713	53 030	2 118	1 476 247
Commercial Real Estate	33	97 379	1 549 766	-	1 647 178
Cash	3 328	13	124 721	-	128 062
Other collaterals	228 657	3 356	1 560 432	80 056	1 872 501
<b>Total loans at 31.12.2020</b>	<b>1 333 961</b>	<b>1 568 570</b>	<b>3 571 292</b>	<b>128 111</b>	<b>6 601 934</b>

CONSOLIDATED	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	1 194 882	25 731	382 820	31 656	1 635 089
Loans secured with:					
Residential Real Estate	349	1 620 313	52 147	2 208	1 675 017
Commercial Real Estate	49	78 993	1 752 329	-	1 831 371
Cash	2 718	1	32 147	-	34 866
Other collaterals	238 762	1 236	1 885 529	66 683	2 192 210
<b>Total loans at 31.12.2021</b>	<b>1 436 760</b>	<b>1 726 274</b>	<b>4 104 972</b>	<b>100 547</b>	<b>7 368 553</b>

CONSOLIDATED	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	1 101 557	47 109	287 453	45 937	1 482 056
Loans secured with:					
Residential Real Estate	386	1 420 713	53 030	2 118	1 476 247
Commercial Real Estate	33	97 379	1 549 766	-	1 647 178
Cash	3 328	13	124 721	-	128 062
Other collaterals	228 657	3 356	1 560 432	80 056	1 872 501
<b>Total loans at 31.12.2020</b>	<b>1 333 961</b>	<b>1 568 570</b>	<b>3 575 402</b>	<b>128 111</b>	<b>6 606 044</b>

The table below provides information about UBB's exposure to credit risk as of 31 December 2021 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 2021 and 31 December 2020 is presented in the table below:



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 35. CREDIT RISK (CONTINUED)

SEPARATE AND CONSOLIDATED				
31 December 2021	AAA to A-	BBB+ to B-	Not rated	Total
Government Bonds	418 874	2 216 042	-	2 634 916
Bank Bonds	-	19 716	-	19 716
Corporate Bonds	-	-	1 101	1 101
Cash with BNB and resources provided to banks	1 343 538	3 377 703	-	4 721 241
<b>Total</b>	<b>1 762 412</b>	<b>5 613 461</b>	<b>1 101</b>	<b>7 376 974</b>

SEPARATE AND CONSOLIDATED				
31 December 2020	AAA to A-	BBB+ to B-	Not rated	Total
Government Bonds	977 702	1 164 559	-	2 142 261
Corporate Bonds	-	-	2 387	2 387
Cash with BNB and resources provided to banks	648 589	2 514 713	-	3 163 302
<b>Total</b>	<b>1 626 291</b>	<b>3 679 272</b>	<b>2 387</b>	<b>5 307 950</b>

Loans that are overdue but not impaired which are Stage 1 and Stage 2 at the end of 2021 and 2020 respectively are presented in the table below:

SEPARATE	As of 31.12.2021	As of 31.12.2021	As of 31.12.2021
	Gross carrying amount	Gross carrying amount	Gross carrying amount
	1 to 30 days	31 to 90 days	Total
Consumer loans	23 696	6 177	29 873
Mortgage loans	10 758	3 099	13 857
Small and medium sized enterprises	33 873	7 150	41 023
<b>Total</b>	<b>68 327</b>	<b>16 426</b>	<b>84 753</b>

CONSOLIDATED	As of 31.12.2021	As of 31.12.2021	As of 31.12.2021
	Gross carrying amount	Gross carrying amount	Gross carrying amount
	1 to 30 days	31 to 90 days	Total
Consumer loans	23 696	9 276	32 972
Mortgage loans	10 758	3 099	13 857
Small and medium sized enterprises	33 873	7 150	41 023
<b>Total</b>	<b>68 327</b>	<b>19 525</b>	<b>87 852</b>

SEPARATE	As of 31.12.2020	As of 31.12.2020	As of 31.12.2020
	Gross carrying amount	Gross carrying amount	Gross carrying amount
	1 to 30 days	31 to 90 days	Total
Consumer loans	27 491	8 353	35 844
Mortgage loans	12 781	4 451	17 232
Large corporate clients	11 650	-	11 650
Small and medium sized enterprises	54 315	3 270	57 585
<b>Total</b>	<b>106 237</b>	<b>16 074</b>	<b>122 311</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 35. CREDIT RISK (CONTINUED)

CONSOLIDATED	As of 31.12.2020	As of 31.12.2020	As of 31.12.2020
	Gross carrying amount	Gross carrying amount	Gross carrying amount
	1 to 30 days	31 to 90 days	Total
Consumer loans	27 491	12 804	<b>40 295</b>
Mortgage loans	12 781	4 451	<b>17 232</b>
Large corporate clients	11 650	2	<b>11 652</b>
Small and medium sized enterprises	54 315	3 270	<b>57 585</b>
<b>Total</b>	<b>106 237</b>	<b>20 527</b>	<b>126 764</b>

Loans that are stage 1 split by PD class as of the end of 2021 and 2020 respectively are presented in the table below:

SEPARATE AND CONSOLIDATED	As of 31.12.2021	As of 31.12.2021	As of 31.12.2021	As of 31.12.2021
	Mortgage	Consumer	Corporate	Total
PD				
1	-	170 247	658 396	828 643
2	956 282	35 247	31 574	1 023 103
3	104 216	20 322	151 711	276 249
4	65 907	688 838	399 302	1 154 047
5	31 498	192 349	1 294 997	1 518 844
6	310 490	117 694	1 012 322	1 440 506
7	13 114	38 715	555 541	607 370
8	5 691	20 615	63 131	89 437
<b>Gross Carrying Amount/Outs. Balance Total</b>	<b>1 487 198</b>	<b>1 284 027</b>	<b>4 166 974</b>	<b>6 938 199</b>
<b>ECL</b>	<b>(89)</b>	<b>(2 841)</b>	<b>(5 577)</b>	<b>(8 507)</b>
<b>Net loans</b>	<b>1 487 109</b>	<b>1 281 186</b>	<b>4 161 397</b>	<b>6 929 692</b>

SEPARATE AND CONSOLIDATED	As of 31.12.2020	As of 31.12.2020	As of 31.12.2020	As of 31.12.2020
	Mortgage	Consumer	Corporate	Total
PD				
1	942	167 570	482 652	651 164
2	599 977	19 251	45 887	665 115
3	125 475	36 231	193 380	355 086
4	91 754	488 572	213 651	793 977
5	25 883	163 781	842 590	1 032 254
6	305 192	142 940	1 060 870	1 509 002
7	109 538	117 599	660 148	887 285
8	9 329	28 928	130 991	169 248
<b>Gross Carrying Amount/Outs. Balance Total</b>	<b>1 268 090</b>	<b>1 164 872</b>	<b>3 630 169</b>	<b>6 063 131</b>
<b>ECL</b>	<b>(194)</b>	<b>(3 509)</b>	<b>(11 659)</b>	<b>(15 362)</b>
<b>Net loans</b>	<b>1 267 896</b>	<b>1 161 363</b>	<b>3 618 510</b>	<b>6 047 769</b>

The gross carrying amount of loans that are overdue and which have been impaired as of 31 December 2021 and 2020 is presented in the tables below:

#### Impaired loans

SEPARATE	As of 31.12.2021			Total
	Less than 90 days	91 to 180 days	Over 180 days	
Consumer loans	17 296	8 273	20 929	<b>46 498</b>
Mortgage loans	41 221	4 913	42 537	<b>88 671</b>
Large corporate clients	3 292	-	-	<b>3 292</b>
Small and medium sized enterprises	114 392	3 987	175 127	<b>293 506</b>
<b>Total</b>	<b>176 201</b>	<b>17 173</b>	<b>238 593</b>	<b>431 967</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 35. CREDIT RISK (CONTINUED)

CONSOLIDATED	As of 31.12.2021 Gross carrying amount			
	Less than 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	17 296	8 273	20 929	<b>46 498</b>
Mortgage loans	41 221	4 913	42 537	<b>88 671</b>
Large corporate clients	3 292	-	-	<b>3 292</b>
Small and medium sized enterprises	114 392	3 987	179 272	<b>297 651</b>
<b>Total</b>	<b>176 201</b>	<b>17 173</b>	<b>242 738</b>	<b>436 112</b>

SEPARATE	As of 31.12.2020 Gross carrying amount			
	Less than 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	20 745	8 046	33 979	<b>62 770</b>
Mortgage loans	50 284	5 076	79 363	<b>134 723</b>
Large corporate clients	4 032	-	51	<b>4 083</b>
Small and medium sized enterprises	106 677	8 013	270 968	<b>385 658</b>
<b>Total</b>	<b>181 738</b>	<b>21 135</b>	<b>384 361</b>	<b>587 234</b>

CONSOLIDATED	As of 31.12.2020 Gross carrying amount			
	Less than 90 days	91 to 180 days	Over 180 days	Total
Consumer loans	20 745	8 046	33 979	<b>62 770</b>
Mortgage loans	50 284	5 076	79 363	<b>134 723</b>
Large corporate clients	4 032	-	51	<b>4 083</b>
Small and medium sized enterprises	107 166	11 005	274 869	<b>393 040</b>
<b>Total</b>	<b>182 227</b>	<b>24 127</b>	<b>388 262</b>	<b>594 616</b>

During the course of 2021 the Bank has updated all policies and instructions related to Credits according to the newly published and amended regulations by the regulatory bodies.

This refers to amongst other:

- The EBA Guidelines on Loan Origination and monitoring with the introduction of a Credit Risk Standard (CRS) on Loan Origination and an update of the Credit Monitoring policies.
- Update of the CRS on Collateral Management.

The Bank has adopted the ESG rules and introduced the necessity to provide an ESG assessment in the underwriting process.

The Bank has amended the rules and policies on Sustainable and Responsible lending.

UBB has improved the internal process for deciding and communicating the different changes in the lending policies and rules.

#### 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 UBB. The rules related to forborne loans are strictly followed and the mark of forbearance is kept according to the rules.

For the purpose of impairment calculation non-defaulted but forborne loans are considered in stage 2.

Forborne loans that meet the triggers for default are considered in stage 3 for ECL calculations.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 35. CREDIT RISK (CONTINUED)

Forborne Loans net of allowance for impairment by product line:

	As at 31.12.2021	As at 31.12.2020	As at 31.12.2021	As at 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
<b>Forborne Loans</b>				
Consumer	26 666	130 531	26 666	130 531
Mortgage	45 318	51 433	45 318	51 433
SME Loans	244 330	255 370	244 330	255 370
Corporate Loans	36 516	39 682	36 516	39 682
<b>Total</b>	<b>352 830</b>	<b>477 016</b>	<b>352 830</b>	<b>477 016</b>

### Industry Concentration risk

	Year ended 31.12.2021	Year ended 31.12.2020	Year ended 31.12.2021	Year ended 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Analysis by industries net of impairments				
Individuals and households	3 095 128	2 784 573	3 095 128	2 784 573
Industry	1 318 745	1 226 016	1 318 745	1 226 016
Trade and services	1 095 443	902 996	1 095 443	902 996
Agriculture	312 608	305 277	312 608	305 277
Transportation	232 968	140 380	232 968	140 380
Construction	227 037	152 590	227 037	152 590
Electricity and heat	186 552	142 874	186 552	142 874
Other	155 388	167 936	269 116	214 886
Real estate	119 046	123 250	119 046	123 250
Financial and Insurance companies	115 157	141 817	83 598	95 932
IT and communications	80 772	69 135	80 772	69 135
Public sector	74 472	77 055	74 472	77 055
Hotel management	51 152	57 499	51 152	57 499
Water supply	21 307	25 388	21 307	25 388
Mining	6 584	7 246	6 584	7 246
<b>Total</b>	<b>7 092 359</b>	<b>6 324 032</b>	<b>7 174 528</b>	<b>6 325 097</b>

### Counterparty concentration risk

The next table presents the information of the large exposure of UBB as for 31 December 2021 and 2020:

SEPARATE	As of 31.12.2021		As of 31.12.2020	
	Amount	% of Equity	Amount	% of Equity
The largest total exposure	133 012	8.14%	105 636	7.14%
<b>Total amount of five largest exposures</b>	<b>337 752</b>	<b>20.66%</b>	<b>371 858</b>	<b>25.15%</b>
CONSOLIDATED	As of 31.12.2021		As of 31.12.2020	
	Amount	% of Equity	Amount	% of Equity
The largest total exposure	133 012	8.14%	105 636	7.15%
<b>Total amount of five largest exposures</b>	<b>337 752</b>	<b>20.67%</b>	<b>371 858</b>	<b>25.17%</b>

### COVID-19 reporting disclosures

In response to the need to address negative economic consequences of COVID-19 pandemic, the Bank have introduced a wide range of relief measures to support the real economy impacted by coronavirus, including loan deferrals and public guarantee schemes to be applied to new lending as disclosed in Note 3.3.

a) Information for loans and advances subject to EBA-compliant moratoria (legislative and non-legislative) as at 31 December 2021 and 31 December 2020 is presented in the table below:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 35. CREDIT RISK (CONTINUED)

SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Non-performing	Accumulated impairment, accumulated negative changes in fair value due to credit risk	ECL on Performing	ECL on Non-performing
<b>Loans and advances subject to EBA-compliant moratoria at 31.12.2021</b>	<b>405 651</b>	<b>365 158</b>	<b>40 493</b>	<b>(12 681)</b>	<b>(5 820)</b>	<b>(6 861)</b>
of which: Households	121 600	104 037	17 563	(9 414)	(2 798)	(6 616)
of which: Non-financial corporations	283 218	260 288	22 930	(3 267)	(3 022)	(245)

SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Non-performing	Accumulated impairment, accumulated negative changes in fair value due to credit risk	ECL on Performing	ECL on Non-performing
<b>Loans and advances subject to EBA-compliant moratoria at 31.12.2020</b>	<b>449 929</b>	<b>442 598</b>	<b>7 331</b>	<b>(8 404)</b>	<b>(7 500)</b>	<b>(904)</b>
of which: Households	119 604	117 149	2 455	(5 283)	(4 433)	(850)
of which: Non-financial corporations	328 490	323 614	4 876	(3 120)	(3 066)	(54)

b) Information for other loans and advances subject to COVID-19-related forbearance measures and of newly originated loans as at 31 December 2021 and 31 December 2020 is presented in the table below:

SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Non-performing	Accumulated impairment, accumulated negative changes in fair value due to credit risk	ELC on Performing	ELC on Non-performing
<b>Other loans and advances subject to COVID-19-related forbearance measures at 31.12.2021</b>	<b>71 658</b>	<b>62 449</b>	<b>9 209</b>	<b>(3 310)</b>	<b>(1 363)</b>	<b>(1 947)</b>
of which: Households	25 148	20 388	4 760	(2 602)	(791)	(1 811)
of which: Non-financial corporations	46 510	42 061	4 449	(708)	(572)	(136)

SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Non-performing	Accumulated impairment, accumulated negative changes in fair value due to credit risk	ELC on Performing	ELC on Non-performing
<b>Other loans and advances subject to COVID-19-related forbearance measures at 31.12.2020</b>	<b>32 582</b>	<b>21 515</b>	<b>11 066</b>	<b>(4 571)</b>	<b>(1 920)</b>	<b>(2 650)</b>
of which: Households	25 361	14 417	10 944	(3 951)	(1 343)	(2 609)
of which: Non-financial corporations	7 221	7 098	123	(619)	(577)	(42)

c) Information for advances subject to public guarantee schemes in the context of the COVID-19 crisis as at 31 December 2021 and 31 December 2020 is presented in the table below:



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 35. CREDIT RISK (CONTINUED) COVID-19 reporting disclosures (continued)

SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Non-performing	Accumulated impairment, accumulated negative changes in fair value due to credit risk	Performing	Non-performing
Newly originated loans and advances subject to public guarantee schemes at 31.12.2021	78 419	77 932	487	(205)	(88)	(117)
of which: Households	35 891	35 404	487	(149)	(32)	(117)
of which: Non-financial corporations	42 528	42 528	-	(56)	(56)	-
SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Non-performing	Accumulated impairment, accumulated negative changes in fair value due to credit risk	Performing	Non-performing
Newly originated loans and advances subject to public guarantee schemes at 31.12.2020	64 937	64 874	64	(147)	(135)	(12)
of which: Households	19 820	19 792	29	(18)	(13)	(5)
of which: Non-financial corporations	45 117	45 082	36	(129)	(122)	(7)

### 36. MARKET RISK

#### Foreign currency risk

The tables below summarize the exposure to foreign currency exchange rate risk as of 31 December 2021 and 2020. Included in the table are UBB's assets and liabilities at carrying amounts in thousands BGN categorized by currency.

SEPARATE	Currency analysis				
	EUR	USD	BGN	Other	Total
<b>31 December 2021</b>					
<b>ASSETS</b>					
Cash and balances with central banks	24 553	5 899	2 124 510	7 474	2 162 436
Due from banks	2 387 633	41 568	55 175	74 429	2 558 805
Loans and advances to customers, net	1 976 113	66 254	5 048 151	1 841	7 092 359
Financial Assets through PL	10	-	6 736	-	6 746
Derivative financial instruments	-	-	25 002	-	25 002
Financial Assets at FVOCI	547 006	24 144	166 603	-	737 753
Securities at AC	1 571 850	134 156	949 727	-	2 655 733
Investments in associates	-	-	19 232	-	19 232
Intangible assets	-	-	15 397	-	15 397
Fixed assets and Right-of-use Assets	-	-	119 443	-	119 443
Investment property	-	-	117 279	-	117 279
Deferred tax assets and corporate income tax receivables	-	-	4 855	-	4 855
Other assets	-	22	15 215	-	15 237
<b>TOTAL ASSETS</b>	<b>6 507 165</b>	<b>272 043</b>	<b>8 667 325</b>	<b>83 744</b>	<b>15 530 277</b>
<b>LIABILITIES</b>	<b>EUR</b>	<b>USD</b>	<b>BGN</b>	<b>Other</b>	<b>Total</b>
Due to banks	1 387 897	5 307	5 223	-	1 398 427
Due to customers	3 605 186	790 594	7 780 694	127 820	12 304 294
Derivative financial instruments	104	-	2 010	3 916	6 030
Long term borrowings	111 712	-	-	-	111 712
Provisions	901	96	8 991	-	9 988
Lease liabilities	-	-	22 185	-	22 185
Other liabilities	-	206	36 017	6 685	42 908
<b>TOTAL LIABILITIES</b>	<b>5 105 800</b>	<b>796 203</b>	<b>7 855 120</b>	<b>138 421</b>	<b>13 895 544</b>
<b>TOTAL EQUITY</b>	<b>-</b>	<b>-</b>	<b>1 634 733</b>	<b>-</b>	<b>1 634 733</b>
<b>NET BALANCE SHEET POSITION</b>	<b>1 401 365</b>	<b>(524 160)</b>	<b>812 205</b>	<b>(54 677)</b>	<b>1 634 733</b>
<b>NET OFF-BALANCE SHEET POSITION</b>	<b>(1 379 431)</b>	<b>475 400</b>	<b>833 114</b>	<b>95 894</b>	<b>24 977</b>

**NOTES TO THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS**  
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All amounts are in thousand Bulgarian Levs, unless otherwise stated

**36. MARKET RISK (CONTINUED)**

**Foreign currency risk (Continued)**

SEPARATE					
Currency analysis					
31 December 2020					
	EUR	USD	BGN	Other	Total
<b>ASSETS</b>					
Cash and balances with central banks	24 549	5 819	1 594 662	10 746	1 635 776
Due from banks	1 405 179	66 985	28 243	27 119	1 527 526
Loans and advances to customers, net	1 907 885	36 945	4 379 201	1	6 324 032
Financial Assets through PL	6 888	-	15 364	-	22 252
Derivative financial instruments	-	-	5 928	-	5 928
Financial Assets at FVOCI	574 258	23 218	224 897	-	822 373
Securities at AC	1 473 287	78 722	592 639	-	2 144 648
Investments in associates	-	-	20 732	-	20 732
Intangible assets	-	-	10 705	-	10 705
Fixed assets and Right-of-use Assets	-	-	126 610	-	126 610
Investment property	-	-	127 342	-	127 342
Deferred tax assets and corporate income tax receivables	-	-	7 223	-	7 223
Other assets	5 433	22	16 557	-	22 012
<b>TOTAL ASSETS</b>	<b>5 397 479</b>	<b>211 711</b>	<b>7 150 103</b>	<b>37 866</b>	<b>12 797 159</b>
<b>LIABILITIES</b>					
Due to banks	98 190	142	4 033	1 370	103 735
Due to customers	3 204 069	699 846	6 712 636	127 573	10 744 124
Payables under repo agreements	282 755	-	-	-	282 755
Derivative financial instruments	6 715	-	39 926	-	46 641
Long term borrowings	68 200	-	-	-	68 200
Provisions	3 314	199	10 673	-	14 186
Lease liabilities	-	-	22 063	-	22 063
Other liabilities	7 286	115	29 263	5	36 669
<b>TOTAL LIABILITIES</b>	<b>3 670 529</b>	<b>700 302</b>	<b>6 818 594</b>	<b>128 948</b>	<b>11 318 373</b>
<b>TOTAL EQUITY</b>	<b>-</b>	<b>-</b>	<b>1 478 786</b>	<b>-</b>	<b>1 478 786</b>
<b>NET BALANCE SHEET POSITION</b>	<b>1 726 950</b>	<b>(488 591)</b>	<b>331 509</b>	<b>(91 082)</b>	<b>1 478 786</b>
<b>NET OFF-BALANCE SHEET POSITION</b>	<b>(1 655 286)</b>	<b>492 269</b>	<b>1 039 497</b>	<b>91 074</b>	<b>(32 446)</b>
CONSOLIDATED					
Currency analysis					
31 December 2021					
	EUR	USD	BGN	Other	Total
<b>ASSETS</b>					
Cash and balances with central banks	24 553	5 899	2 124 510	7 474	2 162 436
Due from banks	2 387 633	41 568	55 175	74 429	2 558 805
Loans and advances to customers, net	1 976 113	66 254	5 130 320	1 841	7 174 528
Financial Assets through PL	10	-	6 736	-	6 746
Derivative financial instruments	-	-	25 002	-	25 002
Financial Assets at FVOCI	547 006	24 144	166 603	-	737 753
Securities at AC	1 571 850	134 156	949 727	-	2 655 733
Investments in associates	-	-	3 416	-	3 416
Intangible assets	-	-	16 028	-	16 028
Fixed assets and Right-of-use Assets	-	-	119 602	-	119 602
Investment property	-	-	125 338	-	125 338
Deferred tax assets and corporate income tax receivables	-	-	4 981	-	4 981
Other assets	-	22	16 726	-	16 748
<b>TOTAL ASSETS</b>	<b>6 507 165</b>	<b>272 043</b>	<b>8 744 164</b>	<b>83 744</b>	<b>15 607 116</b>
<b>LIABILITIES</b>					
Due to banks	1 387 897	5 307	5 223	-	1 398 427
Due to customers	3 605 186	790 594	7 777 527	127 820	12 301 127
Derivative financial instruments	104	-	2 010	3 916	6 030
Long term borrowings	166 476	-	25 000	-	191 476
Current income tax liabilities	-	-	26	-	26
Provisions	901	96	9 003	-	10 000
Lease liabilities	-	-	22 283	-	22 283
Deferred tax liabilities	-	-	1	-	1
Other liabilities	-	206	36 453	6 685	43 344
<b>TOTAL LIABILITIES</b>	<b>5 160 564</b>	<b>796 203</b>	<b>7 877 526</b>	<b>138 421</b>	<b>13 972 714</b>
<b>TOTAL EQUITY</b>	<b>-</b>	<b>-</b>	<b>1 634 402</b>	<b>-</b>	<b>1 634 402</b>
<b>NET BALANCE SHEET POSITION</b>	<b>1 346 601</b>	<b>(524 160)</b>	<b>866 638</b>	<b>(54 677)</b>	<b>1 634 402</b>
<b>NET OFF-BALANCE SHEET POSITION</b>	<b>(1 379 431)</b>	<b>475 400</b>	<b>833 114</b>	<b>95 894</b>	<b>24 977</b>

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 36. MARKET RISK (CONTINUED)

#### Foreign currency risk (Continued)

CONSOLIDATED					
Currency analysis					
31 December 2020					
	EUR	USD	BGN	Other	Total
<b>ASSETS</b>					
Cash and balances with central banks	24 549	5 819	1 594 662	10 746	<b>1 635 776</b>
Due from banks	1 405 179	66 985	28 243	27 119	<b>1 527 526</b>
Loans and advances to customers, net	1 907 885	36 945	4 380 266	1	<b>6 325 097</b>
Financial Assets through PL	6 888	-	15 364	-	<b>22 252</b>
Derivative financial instruments	-	-	5 928	-	<b>5 928</b>
Financial Assets at FVOCI	574 258	23 218	224 897	-	<b>822 373</b>
Securities at AC	1 473 287	78 722	592 639	-	<b>2 144 648</b>
Investments in associates	-	-	3 477	-	<b>3 477</b>
Intangible assets	-	-	11 235	-	<b>11 235</b>
Fixed assets and Right-of-use Assets	-	-	126 773	-	<b>126 773</b>
Investment property	-	-	137 026	-	<b>137 026</b>
Deferred tax assets and corporate income tax receivables	-	-	7 433	-	<b>7 433</b>
Other assets	5 433	23	17 729	-	<b>23 185</b>
<b>TOTAL ASSETS</b>	<b>5 397 479</b>	<b>211 712</b>	<b>7 145 672</b>	<b>37 866</b>	<b>12 792 729</b>
<b>LIABILITIES</b>					
Due to banks	98 190	142	4 033	1 370	<b>103 735</b>
Due to customers	3 204 069	699 846	6 708 413	127 573	<b>10 739 901</b>
Payables under repo agreements	282 755	-	-	-	<b>282 755</b>
Derivative financial instruments	6 715	-	39 926	-	<b>46 641</b>
Long term borrowings	68 200	-	-	-	<b>68 200</b>
Current income tax liabilities	-	-	47	-	<b>47</b>
Provisions	3 314	199	10 777	-	<b>14 290</b>
Lease liabilities	-	-	22 160	-	<b>22 160</b>
Deferred tax liabilities	-	-	1	-	<b>1</b>
Other liabilities	7 286	115	29 964	5	<b>37 370</b>
<b>TOTAL LIABILITIES</b>	<b>3 670 529</b>	<b>700 302</b>	<b>6 815 321</b>	<b>128 948</b>	<b>11 315 100</b>
<b>TOTAL EQUITY</b>	<b>-</b>	<b>-</b>	<b>1 477 629</b>	<b>-</b>	<b>1 477 629</b>
<b>NET BALANCE SHEET POSITION</b>	<b>1 726 950</b>	<b>(488 591)</b>	<b>330 351</b>	<b>(91 082)</b>	<b>1 477 628</b>
<b>NET OFF-BALANCE SHEET POSITION</b>	<b>(1 655 286)</b>	<b>492 269</b>	<b>1 039 497</b>	<b>91 074</b>	<b>(32 446)</b>

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 2021	With fixed interest rate	With floating interest rate	Interest free	Total
<b>Assets</b>				
Account in Central Bank	-	-	2 162 436	<b>2 162 436</b>
Deposits placed with banks	1 343 538	668 482	546 785	<b>2 558 805</b>
Financial assets at FVOCI	720 544	-	17 209	<b>737 753</b>
Securities at AC	2 655 733	-	-	<b>2 655 733</b>
Loans and advances to clients	310 637	6 781 722	-	<b>7 092 359</b>
Other (Real Estate, Derivatives, other assets)	-	25 002	298 189	<b>323 191</b>
<b>Total assets</b>	<b>5 030 452</b>	<b>7 475 206</b>	<b>3 024 619</b>	<b>15 530 277</b>
<b>Liabilities</b>				
Deposits from banks	1 496 285	13 854	-	<b>1 510 139</b>
Deposits from clients	12 304 294	-	-	<b>12 304 294</b>
Payables on repo agreements	-	-	-	<b>-</b>
Other (Derivatives, other liabilities)	-	6 031	75 080	<b>81 111</b>
<b>Total liabilities</b>	<b>13 800 579</b>	<b>19 885</b>	<b>75 080</b>	<b>13 895 544</b>
Difference in interest rates	(8 770 127)	7 455 321	2 949 539	<b>1 634 733</b>
<b>CONSOLIDATED</b>				
31 December 2021	With fixed interest rate	With floating interest rate	Interest free	Total
<b>Assets</b>				
Account in Central Bank	-	-	2 162 436	<b>2 162 436</b>
Deposits placed with banks	1 343 461	668 482	546 862	<b>2 558 805</b>
Financial assets at FVOCI	720 544	-	17 209	<b>737 753</b>
Securities at AC	2 655 733	-	-	<b>2 655 733</b>
Loans and advances to clients	310 637	6 863 891	-	<b>7 174 528</b>
Other (Real Estate, Derivatives, other assets)	-	25 002	292 859	<b>317 861</b>
<b>Total assets</b>	<b>5 030 375</b>	<b>7 557 375</b>	<b>3 019 366</b>	<b>15 607 116</b>
<b>Liabilities</b>				
Deposits from banks	1 521 285	68 618	-	<b>1 589 903</b>
Deposits from clients	12 301 127	-	-	<b>12 301 127</b>
Payables on repo agreements	-	-	-	<b>-</b>
Other (Derivatives, other liabilities)	-	6 031	75 653	<b>81 684</b>
<b>Total liabilities</b>	<b>13 822 412</b>	<b>74 649</b>	<b>75 653</b>	<b>13 972 714</b>
Difference in interest rates	(8 792 037)	7 482 726	2 943 713	<b>1 634 429</b>

In the table above, the securities at fair value through other comprehensive income which are hedged against interest rate risk are excluded. Further, the securities in Trading book are out of scope.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 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 31.12.2020 are presented:

SEPARATE				
31 December 2020	With fixed interest rate	With floating interest rate	Interest free	Total
<b>Assets</b>				
Account in Central Bank	434 886	-	1 200 890	<b>1 635 776</b>
Deposits placed with banks	-	1 527 526	-	<b>1 527 526</b>
Financial assets at FVOCI	822 373	-	-	<b>822 373</b>
Securities at AC	2 144 648	-	-	<b>2 144 648</b>
Loans and advances to clients	267 798	6 056 234	-	<b>6 324 032</b>
Other (Real Estate, Derivatives, other assets)	-	5 928	336 876	<b>342 804</b>
<b>Total assets</b>	<b>3 669 705</b>	<b>7 589 688</b>	<b>1 537 766</b>	<b>12 797 159</b>
<b>Liabilities</b>				
Deposits from banks	45 646	126 289	-	<b>171 935</b>
Deposits from clients	10 744 124	-	-	<b>10 744 124</b>
Payables on repo agreements	-	282 755	-	<b>282 755</b>
Other (Derivatives, other liabilities)	-	46 641	72 918	<b>119 559</b>
<b>Total liabilities</b>	<b>10 789 770</b>	<b>455 685</b>	<b>72 918</b>	<b>11 318 373</b>
Difference in interest rates	(7 120 065)	7 134 002	1 464 849	<b>1 478 786</b>

CONSOLIDATED				
31 December 2020	With fixed interest rate	With floating interest rate	Interest free	Total
<b>Assets</b>				
Account in Central Bank	434 886	-	1 200 890	<b>1 635 776</b>
Deposits placed with banks	-	1 527 526	-	<b>1 527 526</b>
Financial assets at FVOCI	822 373	-	-	<b>822 373</b>
Securities at AC	2 144 648	-	-	<b>2 144 648</b>
Loans and advances to clients	267 798	6 057 299	-	<b>6 325 097</b>
Other (Real Estate, Derivatives, other assets)	-	5 928	331 381	<b>337 309</b>
<b>Total assets</b>	<b>3 669 705</b>	<b>7 590 753</b>	<b>1 532 271</b>	<b>12 792 729</b>
<b>Liabilities</b>				
Deposits from banks	49 870	122 065	-	<b>171 935</b>
Deposits from clients	10 739 901	-	-	<b>10 739 901</b>
Payables on repo agreements	-	282 755	-	<b>282 755</b>
Other (Derivatives, other liabilities)	-	46 641	73 868	<b>120 509</b>
<b>Total liabilities</b>	<b>10 789 771</b>	<b>451 461</b>	<b>73 868</b>	<b>11 315 100</b>
Difference in interest rates	(7 120 066)	7 139 291	1 458 404	<b>1 477 629</b>

The table below provides information of net interest income sensitivity and the sensitivity of equity as at 31.12.2021 and 31.12.2020 assuming reasonably change in interest rates, ceteris paribus:

31 December 2021	in `000 BGN	in `000 BGN
<b>Increase in basis point</b>	<b>Sensitivity of net interest income</b>	<b>Sensitivity of equity</b>
100/ (-100)	20 250/ (-37 389)	20 250/ (-37 389)
200/ (-200)	41 674/ (-25 903)	(-9 432)/ 26 654
31 December 2020	in `000 BGN	in `000 BGN
<b>Increase in basis point</b>	<b>Sensitivity of net interest income</b>	<b>Sensitivity of equity</b>
100/ (-100)	19 271/ (-32 142)	(-12 996)/ 8 194
200/ (-200)	38 953/ (-21 822)	(-25 993)/ 16 388



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 36. MARKET RISK (CONTINUED)

#### Interest rate risk (continued)

The Net Interest Income Sensitivity for December 2021 and December 2020 is calculated with compliance to the reporting criteria of EBA Guidelines “Interest Rate Risk in the Banking Book” and the stress test scenarios do not include the -300/+300 bps scenarios.

### 37. LIQUIDITY RISK

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 227% liquidity coverage (LCR) for 2021 (2020: 225 %) and net stable funding ratio (NSFR) an average of 173% for 2021 (2020: 172%). Moreover, UBB maintains LCR and NSFR levels well above the regulatory requirements.

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.

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 2021						
ASSETS	3 193 055	1 422 773	1 313 640	5 250 316	4 350 493	15 530 277
<b>TOTAL ASSETS</b>	<b>3 193 055</b>	<b>1 422 773</b>	<b>1 313 640</b>	<b>5 250 316</b>	<b>4 350 493</b>	<b>15 530 277</b>
LIABILITIES						
Due to banks and payables under repo agreements	518 303	880 124	-	-	-	1 398 427
Due to customers	10 897 365	293 058	1 058 041	46 051	9 779	12 304 294
Derivative financial instruments	6 030	-	-	-	-	6 030
Other borrowed funds	-	-	2 920	11 001	97 791	111 712
Lease liabilities (IFRS 16)	726	2 248	5 272	13 735	204	22 185
Other liabilities	52 896	-	-	-	-	52 896
<b>TOTAL LIABILITIES</b>	<b>11 475 320</b>	<b>1 175 430</b>	<b>1 066 233</b>	<b>70 787</b>	<b>107 774</b>	<b>13 895 544</b>
Contingent liabilities	2 364 719	-	-	-	-	2 364 719

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 2021						
ASSETS	3 218 057	1 422 773	1 313 640	5 250 316	4 402 330	15 607 116
<b>TOTAL ASSETS</b>	<b>3 218 057</b>	<b>1 422 773</b>	<b>1 313 640</b>	<b>5 250 316</b>	<b>4 402 330</b>	<b>15 607 116</b>
LIABILITIES						
Due to banks and payables under repo agreements	518 303	880 124	-	-	-	1 398 427
Due to customers	10 894 198	293 058	1 058 041	46 051	9 779	12 301 127
Derivative financial instruments	6 030	-	-	-	-	6 030
Other borrowed funds	-	-	13 081	80 603	97 792	191 476
Lease liabilities (IFRS 16)	726	2 248	5 272	13 734	303	22 283
Other liabilities	53 371	-	-	-	-	53 371
<b>TOTAL LIABILITIES</b>	<b>11 472 628</b>	<b>1 175 430</b>	<b>1 076 394</b>	<b>140 388</b>	<b>107 874</b>	<b>13 972 714</b>
Contingent liabilities	2 475 261	-	-	-	-	2 475 261

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 37. LIQUIDITY RISK (CONTINUED)

Typical for the banking operations, funding sources generally have a shorter maturity than the assets that are funded, leading to a negative net liquidity gap in the shorter time buckets and a positive net liquidity gap in the longer-term buckets. This creates liquidity risk if UBB would be unable to renew maturing short-term funding. UBB's liquidity framework imposes a funding strategy to ensure that the liquidity risk remains within the KBC Group's risk appetite.

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 2020						
ASSETS	2 600 923	446 302	1 370 494	4 505 025	3 874 415	<b>12 797 159</b>
<b>TOTAL ASSETS</b>	<b>2 600 923</b>	<b>446 302</b>	<b>1 370 494</b>	<b>4 505 025</b>	<b>3 874 415</b>	<b>12 797 159</b>
LIABILITIES						
Due to banks and payables under repo agreements	103 730	282 760	-	-	-	386 490
Due to customers	9 463 084	309 180	955 480	16 380	-	10 744 124
Derivative financial instruments	46 641	-	-	-	-	46 641
Other borrowed funds	-	195	-	28 080	39 925	68 200
Lease liabilities (IFRS 16)	766	2 204	5 389	13 656	48	22 063
Other liabilities	50 855	-	-	-	-	50 855
<b>TOTAL LIABILITIES</b>	<b>9 665 076</b>	<b>594 339</b>	<b>960 869</b>	<b>58 116</b>	<b>39 973</b>	<b>11 318 373</b>
Contingent liabilities	1 953 405	-	-	-	-	1 953 405

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 2020						
ASSETS	2 606 851	446 302	1 370 494	4 505 025	3 864 057	<b>12 792 729</b>
<b>TOTAL ASSETS</b>	<b>2 606 851</b>	<b>446 302</b>	<b>1 370 494</b>	<b>4 505 025</b>	<b>3 864 057</b>	<b>12 792 729</b>
LIABILITIES						
Due to banks and payables under repo agreements	103 730	282 760	-	-	-	<b>386 490</b>
Due to customers	9 458 861	309 180	955 480	16 380	-	<b>10 739 901</b>
Derivative financial instruments	46 641	-	-	-	-	<b>46 641</b>
Other borrowed funds	-	195	-	28 080	39 925	<b>68 200</b>
Lease liabilities (IFRS 16)	766	2 204	5 486	13 656	48	<b>22 160</b>
Other liabilities	51 708	-	-	-	-	<b>51 708</b>
<b>TOTAL LIABILITIES</b>	<b>9 661 706</b>	<b>594 339</b>	<b>960 966</b>	<b>58 116</b>	<b>39 973</b>	<b>11 315 100</b>
Contingent liabilities	2 024 918	-	-	-	-	2 024 918

### 38. FAIR VALUE MEASUREMENT

#### 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 38. FAIR VALUE MEASUREMENT (CONTINUED)

SEPARATE	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>ASSETS</b>				
Cash and balances with the Central Bank	2 162 436	2 162 436	1 635 776	1 635 776
Due from banks	2 558 805	2 558 805	1 527 526	1 527 526
Investments at amortized cost	2 655 733	2 743 793	2 144 648	2 277 720
Loans and advances to customers, net	7 092 359	7 120 063	6 324 032	6 400 063
<b>TOTAL ASSETS</b>	<b>14 469 333</b>	<b>14 585 097</b>	<b>11 631 982</b>	<b>11 841 085</b>
<b>LIABILITIES</b>				
Due to customers	12 304 294	12 304 255	10 744 124	10 743 948
Other borrowed funds	111 712	112 215	68 200	68 200
<b>TOTAL LIABILITIES</b>	<b>12 416 006</b>	<b>12 416 470</b>	<b>10 812 324</b>	<b>10 812 148</b>
<b>CONSOLIDATED</b>				
<b>ASSETS</b>				
Cash and balances with the Central Bank	2 162 436	2 162 436	1 635 776	1 635 776
Due from banks	2 558 805	2 558 805	1 527 526	1 527 526
Investments at amortized cost	2 655 733	2 743 793	2 144 648	2 277 720
Loans and advances to customers, net	7 174 528	7 202 232	6 325 097	6 401 128
<b>TOTAL ASSETS</b>	<b>14 551 502</b>	<b>14 667 266</b>	<b>11 633 047</b>	<b>11 842 150</b>
<b>LIABILITIES</b>				
Due to customers	12 301 127	12 301 088	10 739 901	10 739 725
Other borrowed funds	191 476	191 979	68 200	68 200
<b>TOTAL LIABILITIES</b>	<b>12 492 603</b>	<b>12 493 067</b>	<b>10 808 101</b>	<b>10 807 925</b>

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2021 and 2020:

- The carrying amount of cash and balances with the Central Bank, due from and due to banks as well as accrued interest equals their fair value. The fair values are categorized as Level 1 for cash in hand (Note 33) and Level 2 for balances with the Central bank. The fair values of the amounts due from banks, due to customers and other borrowed funds are categorized in Level 2.
- The fair value of loans and advances to customers is estimated using discounted cash flow models (the expected loan related cash flows discounted by the market interest rates) and it is categorized in Level 3.
- Investments at amortized cost are represented by Government Bonds with quoted prices and categorized in Level 1.

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, 2021 and 2020.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

### **38. FAIR VALUE MEASUREMENT (CONTINUED)**

Level 3 financial instruments at December 31, 2021 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, 2021 and 2020.

#### **Valuation Process and Control Framework**

UBB has various processes in place to ensure that the fair values of its assets and liabilities are reasonably estimated and has established a control framework which is designed to ensure that fair values are validated by functions independent of the risk-taker. To that end UBB utilizes various sources for determining the fair values of its financial instruments and uses its own independent functions to validate these results where possible.

Fair values of debt securities are determined either by reference to prices for traded instruments in active markets to external quotations or widely accepted financial models which are based on market observable or unobservable information where the former is not available as well as relevant market-based parameters such as interest rates option fluctuations currency rates etc. and may also include a liquidity risk adjustment where UBB considers it appropriate.

UBB may sometimes also utilize third-party pricing information and perform validating procedures on this information or base its fair value on the latest transaction prices available given the absence of an active market or similar transactions. All such instruments are categorized within the lowest level of fair value hierarchy (i.e. Level 3).

Generally fair values of debt securities including significant inputs on the valuation models are independently checked and validated by Risk Management Directorate on a regular basis.

Fair value of derivatives is determined using valuation models which include discounted cash-flow models or other appropriate models. Adequate control procedures are in place for the validation of these models including the valuation inputs on systematic basis. Risk Management Directorate provides the control valuation framework necessary to ensure that the fair values are reasonably determined reflecting current market and economic conditions.

#### **Market Valuation Adjustments**

The output of a valuation technique is always an estimate or approximation of a fair value that cannot be measured with complete certainty. As a result, valuations are adjusted where appropriate to reflect close-out costs credit exposure model driven valuation uncertainty trading restrictions and other factors when such factors would be considered by market participants in measuring fair value.

#### **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 2021 applicable 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

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not less than 15.75% on individual basis (14.75% on consolidated basis) and tier-one capital adequacy of not less than 13.75% on individual basis (12.75% on consolidated basis).

### 39. CAPITAL AND CAPITAL BASE (CONTINUED)

These levels included for Pillar I respectively: 8% total capital adequacy and 6% tier-one capital adequacy as well as 2.5% Capital Conservation Buffer, 3% Systemic Risk Buffer, 0.75% Buffer for O-SIIs and 0.5% countercyclical buffer. On individual basis 1% Pillar II is required additionally.

UBB has complied with the regulatory requirements of minimum capital adequacy for 2021 and for 2020.

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 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Paid up Capital Instruments	93 838	93 838	93 838	93 838
Reserves incl. retained earnings	1 326 364	1 217 472	1 325 204	1 219 186
Other comprehensive income	43 416	58 671	43 415	58 671
Common Equity Tier I deductions	(26 228)	(21 425)	(26 859)	(22 111)
Common Equity Tier I Capital (CET1)	1 437 390	1 348 556	1 435 598	1 349 584
<b>Total Tier I Capital</b>	<b>1 437 390</b>	<b>1 348 556</b>	<b>1 435 598</b>	<b>1 349 584</b>
Additional deductions from Tier I and Tier II Equity				
Total Regulatory Capital (own funds)	1 437 390	1 348 556	1 435 598	1 349 584
Common Equity Tier I Capital ratio	21.24%	22.09%	20.91%	22.06%
Tier I Capital ratio	21.24%	22.09%	20.91%	22.06%
<b>Total capital ratio</b>	<b>21.24%</b>	<b>22.09%</b>	<b>20.91%</b>	<b>22.06%</b>
Surplus(+)/Deficit (-) of total capital	<b>896 077</b>	<b>860 088</b>	<b>886 353</b>	<b>860 053</b>

#### 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 31 December 2021 and 31 December 2020, the capital requirements for credit market and operational risks are as follows:

Risk Weighted Assets	As of 31.12.2021	As of 31.12.2020	As of 31.12.2021	As of 31.12.2020
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Credit Risk including exposures to:	6 071 491	5 301 091	6 169 670	5 309 726
Central governments or central banks	20 803	23 082	20 803	23 082
Regional governments or local authorities	16 997	17 666	16 997	17 666
Public sector entities	2 012	1 437	2 012	1 437
Institutions	715 409	399 855	715 409	399 855
Corporates	2 344 098	2 039 672	2 439 201	2 046 058
Retail	1 410 533	1 290 198	1 421 556	1 299 170
Secured by mortgages on immovable property	937 734	825 878	937 734	825 878
Exposures in default	309 931	359 115	311 597	361 854
Collective investments undertakings (CIU)		2 277		2 277
Equity	45 405	47 573	25 749	26 570
Other items	268 569	294 338	278 612	305 879
Operational Risk	666 538	713 538	667 500	718 188
Market Risk	28 388	91 226	28 388	91 226
<b>TOTAL RISK EXPOSURE AMOUNT</b>	<b>6 766 417</b>	<b>6 105 855</b>	<b>6 865 558</b>	<b>6 119 140</b>



All amounts are in thousand Bulgarian Levs, unless otherwise stated

### 39. CAPITAL AND CAPITAL BASE (CONTINUED)

#### Separate and consolidated basis of preparation:

UBB's capital position significantly exceeds the regulatory minimum. The total capital adequacy as of December 31, 2021 as per CRD IV regulatory framework amounts to 21.24% (based on total Regulatory Capital on individual basis at BGN 1 437 million) and Tier 1 capital adequacy amounts to 21.24%.

UBB's capital position significantly exceeds the regulatory minimum. The total capital adequacy as of December 31, 2021 as per CRD IV regulatory framework amounts to 20.91% (based on total Regulatory Capital on consolidated basis at BGN 1 439 million) and Tier 1 capital adequacy amounts to 20.91%.

### 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

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 the members of the management and supervisory bodies of UBB for the financial year 2021 is BGN 2 858 thousand (2020: BGN 3 237 thousand).

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

As of 31 December 2021, UBB has performed transactions with the following related parties:

As of 31 December 2021 – Separate	KBC Bank NV	KBC Group	Subsidiaries companies	Associate companies
Loans and advances from clients (agreed int rate from -0.41% to 0.2%, weighted average int. rate -0.21%)*	658 394	123	-	-
Deposits placed (agreed int rate from -1% to 0.06%, weighted average int rate -0.51%)*	18 769	879 133	-	-
Receivables on repo agreements (agreed int rate from -0.63% to 0.1%, weighted average int rate -0.53%)*	445 637	-	-	-
Other demand deposits due to banks	507 273	-	31 573	-
Derivatives held for trading- assets	23 742	-	-	-
Other assets	-	1 860	30	-
Right of use assets	-	469	-	-
<b>Total Assets</b>	<b>1 653 815</b>	<b>881 585</b>	<b>31 603</b>	-
Deposits received (agreed int rate -0.49%, weighted average int rate -0.49%)*	1 368 310	-	-	-
Funds attracted from clients (agreed int rate 0%, weighted average int rate 0%)*	23 675	46 559	4 441	2 556
Other borrowed funds (agreed int rate 0.46%, weighted average int rate 0.46%)*	97 810	-	-	-
Derivatives held for trading – liability	1 678	-	-	-
Other liabilities	3 912	815	-	-
Leasing liabilities	-	469	-	-
<b>Total Liabilities</b>	<b>1 495 385</b>	<b>47 843</b>	<b>4 441</b>	<b>2 556</b>
Interest income	1 466	459	33	-
Fee and commission income	36	20 858	(2)	1
Other income	-	(72)	16	-
Rental income	-	198	106	-
<b>Total income</b>	<b>1 502</b>	<b>21 443</b>	<b>153</b>	<b>1</b>
Interest (expenses)	(6 176)	(3 343)	-	-
Fee and commission expenses	425	(1 130)	-	-
Administrative expenses	(9 398)	(8 508)	(676)	(1 893)

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<b>Total Expenses</b>	<b>(15 149)</b>	<b>(12 981)</b>	<b>(676)</b>	<b>(1 893)</b>
Net expenses from hedge transactions	(152)	-	-	-

**40. RELATED PARTY TRANSACTIONS (CONTINUED)**

As of 31 December 2021 – Consolidated	KBC Bank NV	KBC Group	Associate companies	
Loans and advances from clients (agreed int rate from -0.41% to 0.72%, weighted average int rate -0.19%)*	658 394	123	-	-
Deposits placed (agreed int rate from -1% to 0.06%, weighted average int rate -0.51%)*	18 769	879 133	-	-
Receivables on repo agreements (agreed int rate -0.55%, weighted average int rate -0.55%)*	445 637	-	-	-
Other demand deposits due to banks	507 273	-	-	-
Derivatives held for trading- assets	23 742	-	-	-
Other assets	66	2 423	-	-
Right of use assets	-	469	-	-
<b>Total Assets</b>	<b>1 653 881</b>	<b>882 148</b>	-	-
Deposits received (agreed int rate -0.49%, weighted average int rate -0.49%)*	1 368 310	-	-	-
Funds attracted from clients (agreed int rate 0%, weighted average int rate 0%)*	23 675	46 559	-	2 556
Other borrowed funds (agreed int rate from -0.26% to 0.46, weighted average int rate 0.10%)*	177 573	-	-	-
Derivatives held for trading – liability	1 678	-	-	-
Derivatives held for hedging – liability	3 912	-	-	-
Other liabilities	-	822	-	-
Leasing liabilities	-	469	-	-
<b>Total Liabilities</b>	<b>1 575 148</b>	<b>47 850</b>	-	<b>2 556</b>
Interest income	1 576	459	-	-
Fee and commission income	36	22 498	-	1
Other income	-	547	-	-
Rental income	-	198	-	-
<b>Total income</b>	<b>1 612</b>	<b>23 702</b>	-	<b>1</b>
Interest (expenses)	(6 176)	(3 343)	-	-
Fee and commission expenses	425	(1 130)	-	-
Administrative expenses	(9 398)	(8 521)	-	(1 893)
<b>Total Expenses</b>	<b>(15 149)</b>	<b>(12 994)</b>	-	<b>(1 893)</b>
Net expenses from hedge transactions	(152)	-	-	-

As of 31 December 2020 – Separate	KBC Bank NV	KBC Group	Subsidiaries companies	Associate companies
Loans and advances from clients (agreed int. rate from -0.29% to 0.36%, weighted average int. rate 0.08%)*	544 533	-	-	-
Receivables on repo agreements (agreed int. rate -0.55%, weighted average int. rate -0.55%)*	586 708	-	-	-
Other demand deposits due to banks	248 130	-	45 884	-
Derivatives held for trading- assets	2 495	-	-	-
Other assets	1	1 450	30	-
Right of use assets	-	304	-	-
<b>Total Assets</b>	<b>1 381 867</b>	<b>1 754</b>	<b>45 914</b>	-
Payables on repo agreements (agreed int. rate from -0.4% to -0.5%, weighted average int. rate -0.43%)*	282 755	-	-	-
Funds attracted from clients (agreed int. rate from -0.5% to 2.8%, weighted average int. rate -0.013%)*	102 718	54 756	-	2 556
Derivatives held for trading – liability	38 274	-	-	-
Derivatives held for hedging – liability	6 737	-	-	-
Subordinated term debt	-	-	-	-
Other liabilities	658	394	-	-
Leasing liabilities	-	305	-	-
<b>Total Liabilities</b>	<b>431 142</b>	<b>55 455</b>	-	<b>2 556</b>
Interest income	2 241	11	56	-
Fee and commission income	39	17 918	620	1
Other income	-	622	132	-
Rental income	-	118	172	-
<b>Total income</b>	<b>2 280</b>	<b>18 669</b>	<b>980</b>	<b>1</b>
Interest (expenses)	(2 473)	(1)	-	-
Fee and commission expenses	(308)	(1 244)	-	-
Administrative expenses	(8 886)	(7 658)	(739)	(1 893)
Interest expenses on lease liabilities	-	1	-	-
<b>Total Expenses</b>	<b>(11 667)</b>	<b>(8 902)</b>	<b>(739)</b>	<b>(1 893)</b>

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Net expenses from hedge transactions (15) - -

**40. RELATED PARTY TRANSACTIONS (CONTINUED)**

As of 31 December 2020 – Consolidated	KBC Bank NV	KBC Group	Associate companies
Loans and advances from clients (agreed int. rate from -0.29% to 0.36%, weighted average int. rate 0.08%) *	544 533	-	-
Receivables on repo agreements (agreed int. rate -0.55%, weighted average int. rate -0.55%) *	586 708	-	-
Other demand deposits due to banks	248 130	-	-
Derivatives held for trading- assets	2 495	-	-
Other assets	1	1 450	-
Right of use assets	-	304	-
<b>Total Assets</b>	<b>1 381 867</b>	<b>1 754</b>	-
Payables on repo agreements (agreed int. rate from -0.4% to -0.5%, weighted average int. rate -0.43%) *	282 755	-	-
Funds attracted from clients (agreed int. rate from -0.5% to 2.8%, weighted average int. rate -0.013%) *	102 718	54 756	2 556
Derivatives held for trading – liability	38 274	-	-
Subordinated term debt	6 737	-	-
Other liabilities	658	394	-
Leasing liabilities	-	305	-
<b>Total Liabilities</b>	<b>431 142</b>	<b>55 455</b>	<b>2 556</b>
Interest income	2 241	11	-
Fee and commission income	39	17 918	1
Other income	-	622	-
Rental income	-	118	-
<b>Total income</b>	<b>2 280</b>	<b>18 669</b>	<b>1</b>
Interest (expenses)	(2 473)	(1)	-
Fee and commission expenses	(308)	(1 244)	-
Administrative expenses	(8 886)	(7 658)	(1 893)
Interest expenses on lease liabilities	-	1	-
<b>Total Expenses</b>	<b>(11 667)</b>	<b>(8 902)</b>	<b>(1 893)</b>
Net expenses from hedge transactions	(15)	-	-

\*UBB has a netting agreement regarding repos, reverse repos with the same end date, same currency and same legal entity and derivatives (with the same characteristics). Currently the Bank do not used this option in preparation on its Financial Statements. In 2021, there are no deals that meet the requirements for offsetting in regards for Reverse Repo and Repo (2020: the net exposure of Reverse Repo was BGN 87 064 thousand, respectively for Repo BGN 391 020 thousand). In 2021, respectively 2020 there are no derivative deals subject to netting agreement.

**Subsidiary and associated companies included in the separate financial statements.**

Transactions between UBB and its subsidiaries (UBB Factoring EOOD, UBB Insurance Broker EAD, East Golf Properties EAD and UBB Centre Management EOOD) relate mainly to fees and commissions for the main activity of the entities and to maintaining of deposits and current accounts.

In March 2020, UBB Asset Management AD was sold to KBC Asset Management, hence as at 31 December 2020 it is no longer a subsidiary of UBB.

**Associated companies included in the consolidated financial statements.**

Transactions between UBB and its associated company (Druzhestvo za Kasovi Uslugi AD) relate 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 KBC Asset Management AD which is a subsidiary of KBC Group, as follows:

Shares in mutual funds managed by the subsidiary UBB Asset Management AD	Separate	Separate	Consolidated	Consolidated
UBB Balanced Fund	-	1 188	-	1 188
UBB Premium Shares Fund	-	1 090	-	1 090
<b>Total</b>	-	<b>2 278</b>	-	<b>2 278</b>

1. As of 31.12.2021 the whole exposure is sold out.

*All amounts are in thousand Bulgarian Levs, unless otherwise stated*

#### **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 and factoring line of business. UBB has not received any government grants as of 31 December 2021 and 31 December 2020. The separate and consolidated performance is presented below:

<b>As at 31 December 2021</b>	<b>Geographical location</b>	<b>Size of the turnover</b>	<b>Equivalent number of full-time employees</b>	<b>Financial result before tax</b>	<b>Taxation</b>	<b>Return on assets obtained as the ratio of net profit to total assets</b>
Bank	Bulgaria	437 834	2 555	190 215	(19 101)	1.10%
Group	Bulgaria	442 968	2 618	191 417	(19 472)	1.10%

<b>As at 31 December 2020</b>	<b>Geographical location</b>	<b>Size of the turnover</b>	<b>Equivalent number of full-time employees</b>	<b>Financial result before tax</b>	<b>Taxation</b>	<b>Return on assets obtained as the ratio of net profit to total assets</b>
Bank	Bulgaria	420 202	2 665	120 573	(11 769)	0.85%
Group	Bulgaria	421 407	2 722	117 854	(11 926)	0.83%

#### **42. EVENTS AFTER THE REPORTING PERIOD**

In January 2022, the Management Board of UBB AD in its capacity as a sole owner of the capital of UBB Insurance Broker EAD agreed an action plan for the transfer of ownership of UBB Insurance Broker EAD from UBB AD to UBB Interlease EAD. The Share purchase agreement for 100% of the shares (or 500 000 shares) is expected to be concluded until the end of second quarter of 2022 for a sale price of 1 950 thousands.

At the time this report was being prepared, the invasion by Russia of Ukraine required additional attention at group and local level. UBB has no exposure to Ukraine and Belarus and only limited direct exposure to Russia at the amount of BGN 173 thousands (mainly nostro account with PJSC Rosbank). UBB is keeping a very close eye on the related macroeconomic impact (e.g., impact of high gas and oil prices on inflation and economic growth) and on spillover effects to UBB and its clients, both financially and operationally, with amongst others high focus on information security threats. Economic and financial sanctions by the West might further impact the European economy. Continuous monitoring and reporting of the situation is in place.

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 2021.