ANNUAL DISCLOSURE
YEAR 2022
ON CONSOLIDATED BASIS

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

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UNITED BULGARIAN BANK AD ("UBB" or the "Bank") is a joint stock company registered in Bulgaria in September 1992, through the merger of 22 commercial banks. In June 2017 KBC Bank NV ("KBC") acquired 99.91% of the Bank's capital. On 05.02.2018 the Commercial Register of the Registry Agency has officially entered the reorganization of CIBANK JSC through merger into UNITED BULGARIAN BANK AD. As a result of the merger the capital of UNITED BULGARIAN BANK was increased and the newly issued shares were acquired by the sole shareholder of CIBANK JST – KBC, thus increasing KBC's share in the capital of the merged entity to 99,92 %.

From the date of the merger onwards all rights and obligations of CIBANK JSC have been transferred to UNITED BULGARIAN BANK AD in the latter's capacity as universal successor, with which the process of CIBANK's merger into UBB has been finalized. By virtue of this change the clients of CIBANK JSC become clients of UNITED BULGARIAN BANK AD. After the reorganization UBB becomes one of the largest banks in Bulgaria. The United Bank is also taking advantage of the support of the international banking group KBC.

In November 2021 KBC announced that an agreement was reached with Austria-based Raiffeisen Bank International ('RBI') for KBC to acquire 100% of the shares of Raiffeisenbank (Bulgaria) EAD, comprising RBI's Bulgarian banking operations. The transaction also includes Raiffeisenbank Bulgaria's fully-owned subsidiaries Raiffeisen Leasing Bulgaria, Raiffeisen Asset Management (Bulgaria) and Raiffeisen Insurance Broker (serving Raiffeisenbank Bulgaria's leasing and corporate clients. The transaction received regulatory approval in the end of June 2022 and took place in the beginning of July 2022. Respectively entities were renamed to KBC Bank Bulgaria EAD, KBC Leasing, KBC Investment management and UBB Insurance broker EOOD. A procedure for merger of the two banks was started, which was also subject to regulatory approval and was completed on 10 April 2023.

1. Scope and Consolidation Methods

This disclosure report has been prepared on a consolidated basis with data as of December 31, 2022, as per Article 70 par. 3 of the Law on Credit Institutions. UBB discloses information on semi-annual basis under part VIII, Title II of Regulation 575/2013.

1.1. Subsidiaries in the Consolidated Report

The subsidiaries and affiliated companies in the corporate structure of UBB as of December 2022 are the following:

a	b	c	d	e	f	g	h
		Method of prudential consolidation					Description of the entity
Name of the entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
UBB FACTORING EOOD	*Full consolidation*	X					*Non-credit financial institutions*
EAST GOLG PROPERTIES EAD	*Full consolidation*	X					*Non-financial company*
UBB CENTER MANAGEMENT EOOD	*Full consolidation*	X					*Non-financial company*
CASH SERVICES COMPANY EAD	*Equity method*			X			*Non-credit financial institutions*

Template EU LI3

At 31 December 2022 the Bank is a sole owner of UBB Factoring EOOD, UBB Centre Management EOOD and East Golf Properties EOOD. UBB also has its associated company named Druzhestvo za Kasovi Uslugi AD consolidated using the equity method.

UBB Factoring is registered as a company in 2009, for factoring services – acquisition of trade receivables, arising from the supply of goods or provision of services, financing and debt collection.

Both companies East Golf Properties EOOD and UBB Centre Management EOOD are SPV (Special purpose vehicles) established by the bank for the real estate management.

1.2. Other qualitative information on the scope of application

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

As of 31.12.2022 no practical or legal impediment to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries exist. There are no items to report under Art. 436 d) and e) CRR.

2. Risk Management Policies and Rules

2.1. Disclosure of concise risk statement approved by the management body

The Capital Adequacy Statement (CAS) is a core element of UBB´s Internal Capital Adequacy Assessment Process (ICAAP) under the SSM's Supervisory Review and Evaluation Process (SREP). The CAS is defined as: 'A concise and meaningful statement, approved and signed by the management body, outlining the thinking of the management body on the institution´s capital adequacy'.

UBB Management Board's and Supervisory Board's assessment, which is made according to relevant guidelines and regulations, is based on careful review of the quality and outcome of the key building blocks supporting UBB's continuous ICAAP process. These considerations are summarized in this Capital Adequacy Statement, are further substantiated in the background materials of the ICAAP submission and reflect reporting to the MB and SB during 2022 and early 2023.

MB and SB conclude that UBB's capitalization is solid both from a regulatory (normative) as well as from a more comprehensive internal (economic) capital perspective. This statement is based on UBB's current and future risk profile, both in the base case and under adverse conditions, the quality of its risk management, control environment and governance.

2.2. Information on the risk governance structure

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

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

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

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

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

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

  The CRO leads the LRMC and administratively reports to the Bank's CEO but at the same time is directly supervised by the Group Chief Risk Officer and is part of the Group Risk Management at KBC and whenever he considers necessary, has direct access to the Group Risk Management of KBC, as well as to Risk and Compliance committee (RCC) of the Supervisory Board and Audit Committee. The Risk Management Directorate and its Director are actively involved in senior management risk-related committees.
- *Operational* – it encompasses the different lines of Business and business units and refers to the management of risks at the point of their inception. The risk framework for this type of risks provides for the creation and maintenance of appropriate control systems, detailed in specific procedures and instructions.

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

1) The first line includes the business units that are responsible for the risk management of the risks inherent in their activities

2) The second line of defense includes the regulatory defined control functions (risk function and compliance function) and also the tax, legal and finance function, as well as Data Quality Management:

- The risk function sets the standards for risk management via the UBB Risk Management Framework and creates oversight over the control environment and risk exposure;
- The compliance function manages compliance risk based on the Compliance Charter, the Integrity Policy and the Compliance Rules;

3) The third line of defense is the UBB Internal Audit, which gives reasonable assurance to the Supervisory Board that the overall internal control environment is effective and that policies and processes are in place, effective, and consistently applied throughout UBB.

The risk function and Compliance function, as part of the second line of defense, have been set up as an independent, group-wide functions with presence both at group and local entity level. The CRO of UBB is part of the management committees, to make sure the voice of Risk function and Compliance is heard and to ensure that the decision-making bodies are appropriately challenged on matters of risk management and are given expert advice. The CRO has a veto right which can be used in the different committees where material decisions are taken. The direct reporting line of the UBB CRO to the Group CRO further ensures its independence.

The roles and responsibilities of the risk function, the compliance function and the audit function within the three lines of defence are further detailed in the UBB Risk Governance charter, UBB Compliance charter and UBB Audit charter.

2.3. Declaration approved by the management body on the adequacy of the risk management arrangements

The Supervisory Board (SB) of UBB is required by regulation to set up, approve and oversee the implementation of an adequate and effective internal governance and internal control framework that includes a clear organizational structure and well-functioning independent internal risk management, compliance and audit functions that have sufficient authority, stature and resources to perform their responsibilities.

For this purpose, the RCC (under delegated authority of the SB) on annual basis needs to assess the risk function to verify whether risk governance, risk management and resources remain adequate for and commensurate with UBB’s risk profile, business model, nature, size and complexity and whether UBB continues to be compliant with the applicable requirements regarding sound internal governance arrangements.

The following opinion on the adequacy of the risk function is proposed to the RCC:

The risk function:

- is functioning independently, adequately and effectively;
- has sufficient capacity to perform sound risk management;
- has a sufficient mix of experience and maturity.

The Internal Control Statement 2022 confirmed that the integrated and risk-type specific frameworks are overall well implemented in UBB.

2.4. Disclose information on the main features of risk disclosure and measurement systems

UBB publishes Disclosures on semi-annual basis.

2.5. Strategies and processes to manage risks

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

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

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

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

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

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

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

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

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

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

3. Governance

3.1. Governing Bodies

The corporate bodies of UBB are the General Meeting of Shareholders, the Supervisory Board and the Management Board.

The Supervisory Board is the corporate body of the Bank which is empowered to carry out preliminary, current and subsequent control over the compliance of the activities of the Bank with the applicable laws, Articles of Association and the decisions of the General Meeting of Shareholders in the interests of the Bank's clients and its shareholders. The activity of the Supervisory Board is supported by Remuneration Committee, Nomination Committee and Risk and Compliance Committee.

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 Audit Committee is established as a standalone independent body directly reporting to the General Meeting of Shareholders, in compliance with the Independent Financial Audit Act.

The Supervisory Board of the Bank consists of 6 (six) members elected by the General Meeting of Shareholders with majority of the external and independent members.

The Bank is managed and represented by Management Board which consists of 8 (eight) persons elected by the Supervisory Board for a term of up to 4 (four) years. The members of the Management Board could be re-elected with no limitations.

3.2. Election of Memebers of the Management Board

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 members.

Detailed information on the knowledge, skills and expertise of the members of the Management Board is disclosed in the Annual Financial Report.

3.3. Information on the diversity policy with regard of the members of the management body

While the diversity of the Management is not a criterion for the assessment of the member's individual suitability and institutions are primarily responsible for ensuring that members of the management bodies fulfil the suitability criteria, diversity should also be taken into account when selecting and assessing members of the management bodies. Diversity within the Management leads to a broader range of experience, knowledge, skills and values, and is one of the factors that enhance the functioning of the management body and address the phenomenon of "group-think". A diverse pools of members allows a broad set of qualities and competences to be put together, and variety of view and experiences, facilitating different independent opinions and sound decision-making.

3.4. Risk Management Bodies

3.4.1. Local Risk Management Committee (LRMC)

The Local Risk Management Committee (LRMC) was established in accordance with the requirements of KBC Group. The chairman of the LRMC is the CRO of UBB. LRMC is a collective body of the Bank, which supports the Management Board in assessing the adequacy of, and compliance with the KBC RMF, and risk and capital monitoring and balance sheet management. In this capacity, the LRMC has the following key responsibilities:

- To propose the UBB Enterprise Risk Management Framework, the Risk Governance Charter and the ICAAP/ILAAP policies to the Management Board for advice, before these documents are submitted for approval to the Supervisory board.;
- To propose to the Management Board the Risk Management Framework and its main building blocks and to periodically review the same. UBB Risk Management Framework will be aligned with the Group Risk Management Framework;
- To periodically review the effectiveness of and compliance with the KBC Risk Management Framework and propose improvement actions to the Management Board;
- To implement the Group CRO Services' strategy on the local level by setting up the core processes reflecting the strategic value propositions, defining the key performance indicators for these processes and assigning related roles, responsibilities and resources;
- To follow up on the efficiency and effectiveness of the core processes and decide on improvement actions;
- To actively promote (via communication and education) the risk and capital agenda;
- To propose a framework of limits and policies;
- To monitor exposure against these limits;
- To decide on or recommend to the Management Board limit reviews and changes, or mitigating action when exposure is in excess of limits, in line with the governance rules for limits;
- To manage coordination issues across business units;
- To share knowledge and best practices and promote/request alignment;
- To act as a sounding Management Board for risk concepts, (to be) decided on at the UBB Risk and Compliance Committee (RCC) / CRO Services MC;
- To act as a second level of escalation in the New and Active Products Process (NAPP);
- To monitor the Local Risk Profile (integrated and by risk type), including results of stress-tests, to ensure consistency with the Risk Appetite;
- To monitor market context, solvency, liquidity, earnings at risk, risk/return profile, balance sheet profile, maturity transformation and structural interest rate exposure;

- To monitor capital adequacy and usage of regulatory and economic capital;
- To exercise additional oversight in the activity domains of the CRO (credit and operational risks) to mitigate the risks linked with imperfect split in 1st and 2nd line of defense in the activity domains of the CRO.

LRMC has a generic agenda covering all substantial financial risks (credit risk, ALM, liquidity, macroeconomic environment) as well as non-financial risks (operational risk, reputational risk, business risk, data quality, information risk management). Meetings are held at least 11 times per year.

All decisions of LRMC are subject to approval by the Management Board of UBB.

3.4.2. New and Active Products Process (NAPP)

Following the implementation of the Strategic Risk Management Framework, the Bank has established a specialized body for the management of new and active products and their applicable processes – New and Active Products Process (NAPP).

The mission of NAPP is to facilitate and support the process of approving new products and the regular review of existing products, the main objective being the commercial aspects of a product to be balanced from a risk and operational perspective.

NAPP takes the final decisions on approving a new product or review of an existing product before being offered to customers of UBB through various distribution channels.

NAPP ensures that products offered comply with the requirements and capability of the clients. All decisions of NAPP are subject to approval by the Management Board of UBB.

3.4.3. Sustainability Committee (GREEN)

The mission of the Green-Com is to:

- Overview and steer the process of preparation of Sustainable Financing Strategy (SFS) with regards to specific sectors and segments of the Bulgarian lending market. Ultimate goal of such strategy is to set targets and achieve portfolio composition, which would minimize risks associated with environmental changes and their impact, while benefitting from the opportunities arising as a result of the shift towards sustainable financing.
- Promote and support investment projects in alternative energy supply, energy savings, etc.

3.4.4. Local Provisioning Committee

The Local Provisioning Committee is has been established and has received its authority by the Management Board. It is a collective body of the Bank that makes decisions and recommendations on all topics related to impairments of financial assets of the Bank.

The mission of the Local Provisioning Committee is to assist the Management Board in:

1. Approval (changes to) the Bank’s Impairment Policy for financial assets under IFRS 9.

2. Challenging and approval of the monthly impairment results/loss allowances on financial assets not at Fair value through profit or loss (FVPL) on a Bank level under IFRS 9.

3. 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.

The Local Provisioning Committee 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.

3.4.5. Management Board of UBB (MB)

The Management Board of UBB is the single integrating management committee on risk management. The Management Board of UBB issues within the latter are responsibility: Define the Risk Appetite, including the strategic objectives with regard to risk, capital and return, and propose it to the Supervisory Board for decision.

- Propose for decision to the Supervisory board the UBB Risk Governance Charter and the UBB Enterprise Risk Management Framework, UBB ICAAP/ILAAP policies.
- Monitor the risk exposure compared to the Risk Appetite, and periodically reports on its status and evolution to the Risk and Compliance Committee and the Supervisory Board.
- Decides the Vision, Mission and Strategy of the UBB Risk Function - aligned with the Vision, Mission and Strategy of KBC Group Risk - and supervises the implementation.
- Monitor the implementation, efficiency and effectiveness of the KBC Risk Management Framework including the implementation the NAPP Standard and the KBC Standards for Assessment of the Risk Function of as well as its compliance with legal and regulatory requirements
- Include the risk and capital dimension in all their decision-making acting as role model for a sound and consistent bank-wide risk culture.

3.4.6. Risk and Compliance committee (RCC)

The Risk and Compliance Committee of UBB advises the Supervisory Board of UBB on issues within the latter's responsibility before they are submitted for decision:

- The current and future risk appetite and risk strategy, and the supervision of risk exposure compared to the risk appetite.
- The general concept and the strategy related building blocks of the KBC Risk Management Framework.

- The general concept and the strategy related building blocks of the KBC RMF, including the implementation of NAPP Standard.
- The supervision of the implementation, efficiency and effectiveness of the KBC RMF.
- Under authority delegated to them by the Supervisory board of UBB, the RCC of UBB issue periodic opinions on the quality, capacity and skills of the risk function. It supervises the implementation of the "KBC Standards for Assessment of the Risk Function".

The RCC of UBB reviews whether prices of liabilities and assets and categories of off-balance sheet products offered to clients take fully into account the institution's business model and risk strategy.

To assist in the establishment of sound remuneration policies and practices, the RCC of UBB examines, without prejudice to the tasks of the remuneration committee, whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

Upon delegation of the Supervisory Board of UBB, the RCC of UBB issues periodic (annual) opinions on the quality of the risk function.

4. Differences between Accounting and Regulatory Exposure Amounts

4.1. Accounting Scope and Mapping of Financial Statement Categories with Regulatory Risk Categories

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.

For the purposes of Article 436(b) CRR, UBB discloses that it is not included in the consolidated supervision of the parent undertaking, or of each of the parent undertakings, in accordance with Title VII, Chapter 3 of this Directive and Part One, Title II, Chapter 2 of Regulation (EU) No 575/2013:

Template EU LI1

Template EU LI2

4.2. Prudent valuation adjustments (PVA)

UBB discloses the information referred to in point (e) of Article 436 CRR in the following template:

Template EU PV1

5. Regulatory Capital and Capital Adequacy

5.1. Structure and Elements of Own Funds

The table below provides reconciliation of regulatory own funds to balance sheet items in the audited financial statements of United Bulgarian Bank, as per template Template EU CC2 from Regulation (EU) 2021/637:

Table EU CC2

5.2. Disclosure of information about main features of capital instruments

Below information about main characteristics of main features of capital instruments of United Bulgarian Bank AD is presented in accordance with template EU CCA from Regulation (EU) 2021/637:

Table EU CCA

UBB's capital is comprised entirely of Tier 1 instruments. The Bank has not issued AT1 and Tier 2 instruments.

5.3. Information about own funds

The Bank presents details of own funds in line with Regulation (EU) 575/2013 as per guideline in template Template EU CC1 Regulation (EU) No 2021/637:

Table EU CC1

Intangible assets are subtracted directly from own funds under Article 36(1) b. Tax assets fall below the threshold set in Article 38 (3) and are risk weighted at 250% in Other Items asset class.

5.4. Capital Requirements

The Bank fully complies with the Regulation (EU) 575/2013, Directive 2013/36/EU and supervisory requirements of BNB, according to which Tier-I capital and of the Total capital adequacy ratios (OCR and P2G) should be no less than 13.59 % and 17.75 % respectively.

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

Table EU OV1

5.5. Capital Adequacy and Capital Buffers

UBB applies Standardized approach for its capital adequacy report for credit, market and operational risk. The capital requirements, capital buffers imposed by the Regulator and Available Capital are as follows:

Table EU KM1

6. Countercyclical Buffer Requirements

In accordance with Commission delegated regulation (EU) 1152/2014, when calculating the Countercyclical Buffer Requirements (CBR), UBB allocates all foreign credit exposures to the country of registration (i.e. Bulgaria), as none of the foreign exposures represent more than the 2% threshold of its aggregate risk weighted exposures:

Template EU CCyB1

As of 31.12.2022 UBB has foreign exposures (for the purpose of calculating CCR) towards Armenia, Australia, Austria, Bulgaria, Belgium, Canada, Switzerland, Cypress, the Czech Republic, Denmark, Germany, Egypt, Spain, France, Great Britain, Greece, Hungary, Ireland, Israel, Italy, Japan, South Korea, Luxembourg, Latvia, North Macedonia, Moldova, Nigeria, the Netherlands, Norway, Peru, Poland, Romania, Serbia, Russia, Sweden, Slovenia, Turkmenistan, Turkey, Ukraine, the USA.

The Total Risk Exposure amount of the applicable exposures is as follows:

		a
1	Обща рискова експозиция	7 510 655
2	Специфично за институцията равнище на антицикличния капиталов буфер	1.00%
3	Изискване за специфичния за институцията антицикличен капиталов буфер	75 107

Template EU CCyB2

7. Leverage

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

Leverage management targets are set in the Risk Appetite Statement (RAS). The Supervisory Board (SB), supported by the Risk and Compliance Committee (RCC) and the Management Board (MB) approves the Risk Appetite Statement and through it the acceptable levels of risk and the targets the bank should always comply with.

The risk function measures the leverage ratio and reports it quarterly to the Local Risk Management Committee (LRMC).

Template EU LR1

As of the end of the year 2021, the Bank has sustained a leverage ratio of 7.31% (fully phased-in definition) against a preliminary EBA target level of 3.0%.

Template EU LR2

In 2022 UBB was not required to track and report values of SFT values, therefore it has nothing to report in the report.

Template EU LR3

8. Liquidity Risk Disclosure

8.1. Liquidity Management Basics

The approach towards managing UBB's liquidity and funding and assessing whether it is adequate, is described in the UBB ILAAP Policy.

The points of reference for the UBB ILAAP Policy are the Corporate Strategy and the risk appetite objectives. These are the anchors for an iterative, continuous ILAAP based on (1) thorough risk identification, (2) risk measurement, (3) risk appetite setting, (4) forward looking assessments, (5) monitoring and (6) response. These process steps are not strictly sequential but interact with one another.

To allow well founded and pro-active liquidity and funding decisions, UBB assess liquidity adequacy from both a regulatory (normative) and an internal (economic) perspective. This is in line with the UBB Liquidity Risk Management Framework (LRMF) and the KBC Group Funding Framework which define the regulatory and internal measures and dimensions for liquidity management, funding strategy and risk appetite related to liquidity.

The UBB Enterprise Risk Management Framework defines the standards for risk management and the UBB Liquidity Risk Management Framework (LRMF) elaborates on the specific measures, methods, processes, tools ... used for liquidity risk management.

The Supervisory Board (SB), supported by the Risk and Compliance Committee (RCC) and the Management Board (MB), sets the playing field by expressing the Risk Appetite. This playing field is translated, amongst others, into a set of liquidity risk limits that serve as solid footing for the liquidity risk management process. They are complemented with internal liquidity risk assessments and a set of processes and reports in order to allow an adequate and independent monitoring of the business. For all risk related activities, Management Board (MB) is supported by Local Risk Management Committee (LRMC).

Liquidity management itself is organized within the **Treasury function**, which acts as a **first line of defence** and is responsible for the overall liquidity and funding management of the UBB. The Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management. These policies ensure that local management has an incentive to work towards a sound funding profile. It also performs stress tests, actively monitors its collateral on a group-wide basis and is responsible for drafting the Liquidity Contingency Plan (LCP) that sets out the strategies for addressing liquidity shortfalls in emergency situations.

The **Risk function** acts as **a second line of defence** and is responsible for identifying, measuring, monitoring, reporting and stress testing liquidity risk, independently from the first line of defence. The Risk function also sets standards via the LRMF, supports the business with its implementation and challenges the business on their risk identification, measurement and response.

The third line of defence is provided by **Internal Audit**, assuring an independent review and challenge of the UBB's first and second line liquidity (risk) management processes.
The Liquidity Risk Appetite and Profile are expressed as a combination of two measures:

- Minimum Liquidity Coverage Ratio (LCR) and
- Minimum Net Stable Funding Ratio (NSFR).

Setting the risk appetite for short and medium-term liquidity risk (LCR, NSFR) is based on an internal assessment of the liquidity buffers to sustain a major stress.
Risk Appetite setting is embedded in UBB's Aligned Planning Cycle (APC), a concrete three-year forward view in which the strategy, finance, treasury and risk perspectives (including liquidity risk) are taken into account.

The structural funding position is managed as part of the integrated strategic planning process (APC). Funding and liquidity is one of the key elements of the planning process – in addition to other important elements such as capital, profit and risks. UBBs funding strategy is to build up sufficient buffer in terms of LCR and NSFR via the KBC Group Funding Framework.
The KBC Group Intraday Liquidity Management Framework has also been implemented by local treasury to provide compliance with local intraday liquidity reporting requirements set out by the group policy.

Intraday liquidity in UBB is managed by a combination of limits (operational limits towards payments systems; counterparty settlement limits, counterparty limits on individual payments), delegation authority granted to the Treasury Department, and a set of procedures governing the interaction between the Payments Department, Treasury Department and the Cash Desk during the day.

UBB intraday liquidity management procedures allows Treasury directorate to make sure that sufficient liquidity is in place for central bank reserve requirements and positive end of day balance.

Specifically as regards the liquidity position of UBB, a reporting system is in place that caters for adequate monitoring with different frequencies:

- On a daily basis, Treasury Directorate produces a liquidity report on UBB and report it both to Local Risk and UBB Management board members. This report includes positions and evolution of the different types of funding and liquid assets. It is the basis for any actions from Treasury to steer the short-term liquidity position of the Bank, and as such an important tool for decisions on external and intragroup funding.
- On a monthly basis, Liquidity Report is produced by Treasury and presented to LRMC. In this report Treasury presents its assessment of the liquidity and funding situation.
- Risk function calculates the LCR, NSFR and other liquidity measures (share of retail deposits, top 10 depositors and net intragroup funding for example) in order to monitor the liquidity profile and to assess possible breaches of UBB's internal limits. These measures and the results of the performed stress tests are presented in the Integrated Risk Report, which goes to the LRMC, the RCC and the supervisor (by regulatory reports).

- On a quarterly basis, these reports are complemented with additional metrics such as the intraday liquidity stress tests performed in all banking entities within the KBC Group.

Stress testing plays an important role in the UBB liquidity management. It aims to give insight into the liquidity risk profile as input for risk management strategies and positions. As such it is a valuable tool in the risk identification process to create risk awareness and evoke discussions. Stress test results are a key input for:

- defining the target liquidity risk position (Treasury Strategy exercise);
- defining and underpinning the risk appetite and its corresponding limits (reverse stress tests);
- targets for operational risk measures and providing a daily view on the size of the most liquid part of UBB's asset buffer

Finally, liquidity stress testing provides a basis for UBB's Liquidity Contingency Plan and Recovery Plan.

UBB manages and monitors its liquidity position and funding strategies on an ongoing basis, but recognizes that unexpected events, economic or market conditions, or other situations beyond its control could cause a liquidity crisis. Therefore, UBB evaluates this risk continuously and has supplemented its Liquidity Contingency Plan (LCP) with an LCP Playbook containing operational guidelines, allowing it to be maximally prepared if such a crisis would emerge. Both are fully aligned with the Recovery Plan. In stress situations, the metrics with LCP early warning levels are monitored and reported daily.

The Bank's LCP addresses the strategy for managing a liquidity crisis, establishes an action plan for covering cash shortfalls in emergency situations and defines the respective allocation of tasks and responsibilities. It helps the Bank to buy time to think through the range of possible measures for remedying the situation and to restore confidence. The LCP is tested twice a year. As of now, the LCP testing is performed on group level, and local treasury function is responsible to update and submit the LCP.

Since insufficient liquidity is one of the key threats to business continuity/viability, there is a natural connection between the ILAAP, which supports the continuity of operations from the liquidity perspective, and the Recovery Plan (RP). UBB is part of KBC Group Recovery plan. The objective of the RP is to identify the options that might be available to counter a crisis, to assess whether these options are sufficiently robust and whether their nature is sufficiently varied to cope with a wide range of diverse shocks.

According to the regulatory requirements an **internal liquidity adequacy assessment process (ILAAP)** exercise is performed on a yearly basis for assessing the bank's identification, measurement, management and monitoring processes for liquidity, containing all qualitative and quantitative information necessary for underpinning the risk profile.

As an outcome of the process, the bank has to make a clear and formal Liquidity Adequacy Statement (LAS) supported by an analysis of the outcomes and approved and signed by the Management Board and the Supervisory Board. The LAS is submitted to the relevant authority. The **Liquidity Adequacy Statement (LAS) 2022** presents the view of the UBB Management Board (MB) and the Supervisory Board (SB) on the liquidity adequacy of UBB. It outlines MB's and the SB's thinking on its ability to maintain an adequate liquidity and funding position going forward in view of the Corporate Strategy, business model, and current and expected evolution of UBB's risk profile under different scenarios, next to the effectiveness of UBB's risk management, control environment and governance.

MB and the SB conclude that UBB's liquidity and funding position is solid in view of its current and future risk profile, both in the baseline scenario and under adverse conditions, the quality of its risk management, internal control environment and governance and taking both a regulatory (normative) and a more comprehensive internal (economic) liquidity and funding perspective into account.

This conclusion is supported by:

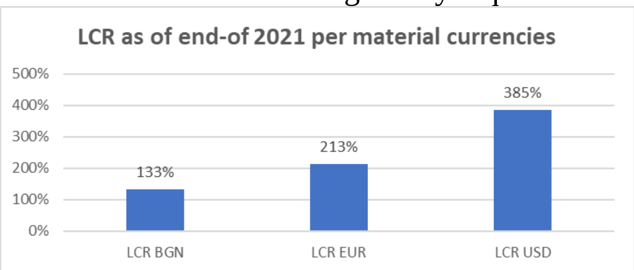
- A solid and well-embedded ILAAP, which is comprehensive and proportionate to the nature, scale and complexity of UBB's activities in all its building blocks, both qualitative and quantitative. It is further confirmed by the ECB SREP 2022 Joint Decision for UBB that assesses the liquidity risks, deficiencies and concerns as medium-low risk;
- A sustainable business model that supports a sound liquidity position;
- A sound risk and control environment, with continued progress made in liquidity and funding risk management throughout 2022;
- A low risk appetite with regard to liquidity;
- Regulatory ratios that stand well above both the regulatory and internal floors. At the end of 2022 the Net Stable Funding Ratio (NSFR) stood at 170% and the Liquidity Coverage Ratio (LCR) stood at 181%, with a twelve-month average of 228%;
- A solid liquid asset buffer that comprises 6 788 MBGN unencumbered central bank eligible assets;
- Liquidity ratios that remain solid under a wide range of stress scenarios;
- A robust and regularly tested Liquidity Contingency Plan (LCP) for early identification and effective management of potential liquidity crisis situations next to KBC's Recovery Plan (RP) designed to provide an orderly return to a normal situation in case measures would not prevent UBB from slipping into recovery.

8.2. Liquidity Coverage Ratio (LCR)

Regulatory LCR ratio stood at a comfortable level: LCR was 181% as of end-of-2022 (with a twelve-month average LCR of 228%) well above the minimum regulatory requirements and also UBB's internal limits.

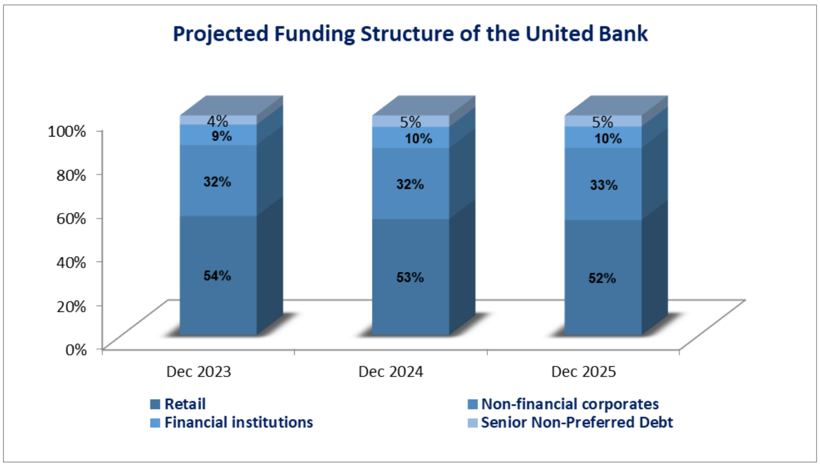
Template EU LIQ1

The all changes were related to the normal business activities of the bank (predominantly to the volumes and maturity of the intragroup transactions).
LCR monitors and monthly reports per material currency. As of end-of-2022, the respective figures in BGN, EUR and USD are well above regulatory required level (min 100%):



8.3. Net Stable Funding Ratio (NSFR)

On the funding side UBB has a solid customer deposit base in our core markets, resulting in a stable funding mix. A significant portion of the funding is attracted from core customer segments – Retail and SME.



UBB finances 80% of its assets by means of customer funding. The long-term wholesale funding is also tolerated for the bail-in purposes and funding diversification as well.
The stable customer funding position of UBB is also proved by the fact of lack of concentration of large depositors. The share of top 10 non-financial depositors is 9% of the total liabilities of the Bank as of end-of-2022. The largest depositors are PF Doverie and Bulgarian Energy Holding.

Template EU LIQ2

At the end of 2022, UBB has a substantial amount of unencumbered liquid assets: 3 470 MEUR of unencumbered central bank eligible assets, 2 343 MEUR of which are in the form of liquid government bonds (68%). The rest are cash and central bank exposures in the form of central bank receivables and minimum required reserves. Most of the unencumbered liquid assets are denominated in Euro and Bulgarian lev. The composition of UBB's bond portfolios is decided as part of the APC process and Treasury strategies. The wholesale funding is limited mainly to intragroup funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.
There are no other elements in the calculation of the LCR that the bank considers important and which are not included in the calculations of this indicator.

9. Credit Risk and Risk Weighted Assets

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

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

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

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

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

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

UBB applies the Standardized Approach for calculation of Risk Weighted Assets. The distribution of exposures into Asset Classes is in the table below:

Template EU CR4

The distribution of exposures by applicable Risk Weights is shown on the following table:

Template EU CR5

10. Information about recognized External Credit Assessment Institutions ("ECAIs") and Export Insurance Agencies ("EIA")

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

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

Ratings of nominated ECAIs are used mainly for exposures to central governments & central banks, bonds issued by Regional Governments (US State Governments) and exposures to institutions.

When determining the applicable Risk Weight of counterparties, UBB strictly follows EBA's ECAI Master Scale.

11. Asset Quality and Non-Performing Loans

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.

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

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.

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.

11.1. Non-Performing Loans

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

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

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

Template EU CR2 Performing and non-performing exposures and related provisions.

Template EU CR2a Changes in the stock of non-performing loans and advances and related net accumulated recoveries

Template EU CR1 Performing and non-performing exposures and related provisions.

11.2. Credit Quality

The disclosure of credit quality as of December 2022 is included in the following templates:

- *Template EU CQ1 Credit quality of forborne exposures*
- *Template EU CQ2 Quality of forbearance*
- *Template EU CQ4: Quality of non-performing exposures by geography*
- *Template EU CQ3: Credit quality of performing and non-performing exposures by past due days*
- *Template EU CQ5: Credit quality of loans and advances to non-financial corporations by industry*
- *Template EU CQ6: Collateral valuation - loans and advances*
- *Template EU CQ7: Collateral obtained by taking possession and execution processes*
- *Template EU CQ8: Collateral obtained by taking possession and execution processes – vintage breakdown*

12. Techniques for Credit Risk Mitigation

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

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

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

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

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

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

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

UBB supports the development of entrepreneurship in Bulgaria, thanks to successful partnerships with guarantors like 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 form the majority of the portfolio secured by financial guarantees.

Template EU CR3

UBB does not use netting as means of Credit Risk Mitigation, therefore it has nothing to disclose under Article 453 (a) CRR.

13. Counterparty Credit Risk

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

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

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

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

UBB uses the Simplified approach (SA_CCR) for CCR calculations:

Template EU CCR1

The scope of transactions that bear Counterparty Credit Risk in UBB is limited. Derivative deals are conducted only with the majority stakeholder, KBC Bank Belgium with the purpose of managing the currency positions and interest rate risk.

Repo deals are limited to intra-group transactions with other entities within KBC group and transactions to Corporate customers.

Template EU CCR3

13.1. Credit Value Adjustments (CVA) Risk

The table below offers an overview on the CVA Risk in the bank (the Standardized Method is applied):

Template EU CCR2

13.2. Available Collateral on CCR Transactions

The composition and volume of available collateral is in the table below:

Template EU CCR5

14. 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.

With respect to the trading book volume the market risk profile of UBB is low.

The main trading market risk measurements in KBC Group are HVaR (Historical Value at Risk) and BPV (Basis Point Value).

HVaR is defined as the maximum value which can be lost:
- Under instantaneous shocks in risk factors
- Reflecting market moves over a certain holding period
- Within a certain confidence level
- With respect to the expected value under these shocks
- For a fixed portfolio composition.

A commonly used measure for assessing interest rate risk is the Basis Point Value (BPV). Note that the convention within KBC is that the effect of a shift of 10 basis points is referred to as the BPV position. BPV is considered per currency.

14.1. Positions (Interest Risk) on Exposures in the Trading Book Portfolio

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

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

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

14.2. Capital requirements for Foreign Exchange Risk

The Bank calculates capital requirements for FX risk resulting from both, the banking and the trading book, according to the standardized approach, described in Chapter 3 (Art. 351-354) of

Regulation (EU) 575/2013, but it has not allocated capital for FX risk, since the amount of the total net open FX position does not exceed 2% of the Bank's own funds.

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

The Bank has no Commodity and Settlement risk exposures.

UBB uses the Standardized Approach for Market Risk Calculations.

Template EU MR1

15. Operational Risk

Operational Risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes all non-financial risks except compliance risk (incl. conduct risk), business risk, strategic risk and reputational risk.

In UBB the KBC Operational Risk Management Framework is implemented. The operational risk management involves application of Group Key Controls (GKCs) at process level as well as specific risks identified by the owner of the process. The assessment of the GKCs at process level aims to check and document the extent of compliance with these controls as the application and assessment of the GKCs is a priority for the Bank. The initial assessment of the GKCs in UBB was done in 2017 and since then it is performed on a regular basis as per group requirements. The assessment of the GKCs is registered in the KBC tool BWise.

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

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

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

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

BCM is coordinated by local risk function as the business units are responsible for BCM framework implementation. Business Impact Analyses (BIAs) are prepared for all processes in the Bank as for each process recovery time objective is defined.

For each process a BC coordinator is assigned who has the task to define the critical processes, systems and people in the business unit, to prepare the Business Continuity Plan (BCP) for crisis situations as well as to coordinate the BCP testing. The BC coordinators also review and update the respective BIAs, BCPs and phone trees at least once a year.

The Bank applies the Standardized Approach for calculating the capital requirements for operational risk.

Template EU OR1

16. Disclosure of Encumbered and Unencumbered assets

The encumbered and unencumbered assets of UBB to 31.12.2022 are as follows:

Template EU AE1

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

Template EU AE2

Template EU AE3

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

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

17. Securitization

There has been no securitization of the Bank's assets in 2022.

18. Specialized Lending

UBB has nothing to disclose in 2022.

19. Remuneration Policies and Practices

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

The Remuneration Committee is a subcommittee of the Supervisory Board, composed of Chairperson and two independent members, who are also members of the supervisory board and are not executive members of the Management Board of Directors. The members of the SB are appointed by the General Meeting of Shareholders for a period of 4 (four) years. 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, considering the implications for the risk and risk management of the bank, the long-term interests of shareholders, investors and other stakeholders in the bank.

In 2022 the UBB Remuneration Committee gathered twice - on regular Committee Meeting, held on 31.03.2022 and Remuneration Committee Meeting, held in absentia on 30.05.2022.
The UBB Remuneration Policy was amended once in 2022, in order to comply with the revised KBC Group Remuneration Policy. The adopted changes were only textual clarifications, which do not interfere the applied processes and rules of the Remuneration Policy, together with the updated risk gateway parameters for Y 2022.
The Remuneration Policy of UBB is based on the KBC Remuneration Policy of KBC Group complies with BNB Ordinance No. 4 on the requirements for remuneration in banks. The Remuneration Policy of UBB is fully compatible with the Bank stakeholders' interests, KBC Corporate Social Responsibility Policy, KBC Corporate Sustainability strategy and KBC Compliance Rules.

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

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

The maximum ratios between fixed and variable remuneration on annual basis are set to be no more than 1 to 0.5. A minimum proportion of 10% of the variable compensation is based upon the KBC Group reported results, mandatory parameter only for KBC senior managers.
Variable remuneration is a set of monetary bonuses, premiums and performance incentives, and other equivalent non-cash instruments. The variable remuneration should not induce risk-taking in excess of the risk profile of the Bank and should be based on risk- and liquidity-adjusted profit, not on gross revenues. Performance bonuses shall be paid only in case of Bank's net profit plan fulfilment at above 80%.

Capital and liquidity parameters are set as a risk gateway for paying out variable remuneration for all categories of the staff including the Key Identified staff.

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

If the risk gateway is passed, the level of the variable remuneration paid still could depend on other variable remuneration guidelines and processes in force. Quantitative risk adjustment measures such as the Risk Adjusted Profit (RAP) are additionally introduced for positions considered as KBC top 300 and impact the level of variable remuneration directly by risk adjusting the size of bonus pools and individual awards.

KIS are staff members (Board Members and B-1 managers only) with a material impact on the risk profile of the Bank, identified by qualitative and quantitative criteria as per the Regulatory Technical Standards (RTS) on Key Identified staff and differentiated in the following groups:

- First group KBC Group KIS – Members of the Supervisory and the Management Board of UBB
- Second group KBC Group KIS – Senior Management and other managers specifically defined by KBC Group
- Third group KIS (local KIS) – Employees responsible for the management of the independent risk management, regulatory compliance and internal audit services and heading material business units of the Bank
- Fourth group KIS – employees whose remuneration exceeds certain quantitative thresholds

The First and Second group KIS, considered to be material KIS, are subject to specific requirements regarding non-cash instruments and deferrals, related to their variable remuneration. 50% of the variable remuneration allocated to KBC Group material KIS consists of share-linked instruments, i.e. phantom stock based upon the KBC Group share or an alternative equity-linked instrument imposed by a local regulator. This principle is applied to both the variable remuneration component paid upfront and the deferred variable remuneration component.

For all employees in Third and Fourth groups who are not included in the First and Second groups, the variable monetary remuneration shall be based on the results of the core business of the Bank, the structural unit and their individual performance. 50% of the variable monetary remuneration of these employees, for which the amount of the variable exceeds EUR 30 000 shall be deferred, in order to promote the achievement of sustainable and long-term results, and discourage risk-taking beyond the acceptable level for the given position.
In case of unsatisfactory financial result of the Bank, the Management Board can take a decision to limit the deferred variable remuneration of employees identified as non-material KIS, to suspend or reduce their payment.

Variable compensation is subject to ex-post risk adjustment measures. Ex post risk adjustment operates either by reducing deferred but not yet vested amounts in case of significant downturn in the financial performance (malus), either by reclaiming ownership of deferred amounts already vested or paid in the past, until maximum five years after payment (claw back) at the discretion of the Supervisory Board of KBC Group and to the extent permitted by law.

Template REM1

Template REM3

Template REM5

In relation to requirements for disclosures on diversity the following information is presented from "*Diversity & Inclusion framework*":

KPI	Action	Status <AS IS>				Timeframe
Diversity metrics - gender diversity	Strive for balanced diversity structure of the Management body of KBC Bulgaria Group on: • **Gender**					Q3 2025
		Body	Male	Femal e	Ratio (m:f)	
	Target for gender diversity: – MB and SB of UBB – ratio of underrepresented gender towards overrepresented gender to fit within the 20% best ratios as measured by EBA Benchmarking of Diversity	UBB MB	4	4	50% : 50%	
		UBB SB	5	1	83% : 17%	
	• **Education** Target for education diversity: All boards include members with diverse educational majors – at least two members have major in economic, legal or technical.	Members with economic, legal and technical education				Permanent
	• **Experience** Target for experience diversity: All boards include members with experience in different financial institutions and/or in different countries	Members with experience in different financial institutions, in different countries				Permanent
	Support of returning mothers	Specialized on-boarding program for returning mothers providing career counselling and orientation Breastfeeding leave for mothers of young children Options for flexi time				Permanent
Diversity metrics - people with disabilities	Positions available for people with disabilities	All entities comply with Bulgarian legislation with respect to employing people with disabilities, e.g. 2% of average headcount				Permanent
	Support to employees and their children	Charity fund, which proves support to employees and their children with disadvantages/ disabilities or families with 3 or more kids				Permanent
Gender Pay Gap	Ensure equal pay	Gender pay gap analysis in process according to the KBC selected methodology, report and proposed action plans to be submitted to CMT in H2'2023				H2'2023
Gender equality principle in all HR related processes, incl. promotion decisions	Equal treatment and inclusion are essential part of our organizations. Equal opportunities principle is included in several HR polices	HR related polices reviewed and updated, explicitly embedding D&I and equal opportunities principles in all HR related processes				Permanent
	In all decisions on hiring, promotion and development, as a principle it is requested to consider candidates from both genders. In this way focus is kept on the matter and an evolutionary progress can be achieved. At group level this principle is applied on appointments for TOP300 and nomination as top talent.	Embedded in the process				Permanent

Training & communication	Learning events	E-learning on unconscious bias for all colleagues (mandatory for all leadership roles) completed	2022
	Ensure internal communication on D&I	Post information on Diversity & Inclusion in Internal sites/e-learning platforms	Permanent
Top talent pool	Monitor Top talent gender ratio and look for ways to balance the gender ratio incl. focus on the underrepresented gender. Target for the local talent list – maintain the 50-50 proportion with 10% deviation over time.	In line: Current top talent ratio: 57% male / 43% female	Permanent
Zero tolerance rule on flagrant disrespectful behavior	Promote principle throughout all staff	In line Current Code of conduct is embedding the principles of equal treatment, diversity and respect. It explicitly introduces zero tolerance rule on flagrant disrespectful behavior, e.g. ▪ Abusing one's position in dealings with colleagues. ▪ Making insulting remarks about others. ▪ Acting in a way that undermines the integrity or dignity of colleagues. ▪ Conspiring against colleagues. ▪ Bullying, harassing, discriminating against or sexually harassing colleagues or clients There is a process in place for submitting signals in cases of harassment and other flagrant disrespectful behavior (Whistleblowing policy).	Permanent