UNITED BULGARIAN BANK AD

ANNUAL REPORT 2022

UBB
Part of KBC Group

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Independent Auditors' Report

To the Shareholders of United Bulgarian Bank AD

Report on the audit of the separate and consolidated financial statements

Our opinion

We have audited the separate and consolidated financial statements of United Bulgarian Bank AD (the "Bank") and its subsidiaries (together - the "Group") which comprise the separate and consolidated statement of financial position as at 31 December 2022, 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 2022, and the Bank's separate and Group's consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for opinion

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

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

Independence

We are independent of the Bank and the Group in accordance with the International 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 8,410 thousand, which represents 5.00% of the separate and 4.96% of the 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 98.9% of the Group's absolute value of underlying profit before tax.

- Estimation uncertainty with respect to the credit loss 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.

Overall Bank and Group materiality	BGN 8,410 thousand
How we determined it	5.00% of the separate and 4.96% of the consolidated profit before tax
Rationale for the materiality benchmark applied	We applied profit before tax as a benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by the users of the separate and consolidated financial statements and it is a generally accepted benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Estimation uncertainty with respect to the credit loss allowance for loans and advances to customers (Note 3.3. "Significant accounting policies – Geopolitical and emerging risks", Note 13 "Loans and advances to customers" and Note 34 "Credit risk") Loans and advances to customers represent a significant part of the total assets of the Bank and the Group as at 31 December 2022 with aggregate gross carrying value of BGN 8,596 million on a separate basis and BGN 8,718 million on a consolidated basis and accumulated loss allowance BGN 179 million on a separate basis and BGN 183 million on a consolidated basis. The Bank applies credit loss allowance model based on expected credit losses ("ECL") in accordance with requirements of IFRS 9 "Financial instruments". The appropriateness of the credit loss allowance for loans and advances to customers requires significant judgement by management. Measuring credit loss allowance for loans and advances to customers under IFRS 9 requires an assessment of the 12-month or lifetime expected credit losses and assessment of significant increase in credit risk or whether loans and advances to customers are in default. The assessment of significant increase in credit risk and default, and the measurement of 12-month or life-time expected credit losses are part of the Bank's and the Group's estimation process and are, amongst others, based on macroeconomic scenarios, credit risk models, triggers indicating significant increase in credit risk, default triggers, the financial condition of the counterparty, the expected future cash flows or the value of collateral. The geopolitical and emerging risks that have arisen in the course of 2022 limit the ability of the ECL models to adequately reflect all the consequences of the resulting economic conditions.	**In this area our audit procedures included, among others:** We have assessed the overall governance of the lending and expected credit loss processes and reviewed the related policies of the Bank and the Group, including 12-month and lifetime expected loss modelling process, the geopolitical and emerging risks post-model adjustment approach. We have assessed the adequacy and consistency of the application of the methodology and models used by the Bank and the Group and the appropriateness of the changes in the expected credit loss models of the Bank and the Group and their compliance with IFRS 9. We have assessed and tested the design and operating effectiveness of the key internal controls within the lending and expected credit loss processes. We have also involved our internal IT specialists to assess and test the IT general controls over these processes. For the credit loss allowance determined on an individual basis, we have performed, for a sample of corporate and SME credit exposures, a detailed examination of loans granted by the Bank and the Group. We inspected the risk category (stage), 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. For the 12-month and lifetime expected credit loss assessed on a collective basis, we inspected 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.

Therefore, the management has decided to implement a post-model adjustments in addition to the ECL provisions produced by the models. The determination of post-model adjustments recognized in addition to the expected credit loss provisions produced by the models, encompasses expert inputs to identify vulnerable clients. The use of different modeling techniques, scenarios and assumptions, including the determination of the post-model adjustments, could result in different estimates of credit loss allowance on loans and advances to customers. As the loans and advances represent significant part of the Bank's and the Group's total assets and given the related estimation uncertainty on credit loss charges, we consider this as a key audit matter.	We performed an assessment of the adequacy of the Bank's and the Group's main assumptions and judgements related to the expected credit losses calculation, including the impact of the geopolitical and emerging risks. Supported by our modeling experts, we have performed an independent recalculation of the expected credit loss for a sample of loans. We also assessed the completeness and reasonableness of the criteria for identification of vulnerable clients used by management in the determination of the post-model adjustments and tested the mathematical accuracy of the calculations, supported by financial modelling experts. Finally, we assessed the completeness and accuracy of the disclosures in the area of credit loss allowance for loans and advances to customers, including the disclosures concerning the geopolitical and emerging risks post-model adjustments and whether the disclosures are in compliance with the IFRS, as adopted by the European Union.

How we tailored our Group audit scope

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

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

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

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

Management is responsible for the other information. The other information comprises the Annual Separate and Consolidated Activity Report, the Separate and Consolidated Corporate Governance Statement and the Separate and Consolidated Non-financial Declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate and consolidated financial statements and our auditors' report thereon.

Our opinion on the separate and consolidated financial statements 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.

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 reporting process.

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

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

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

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

Based on the audit procedures performed and the understanding of the Bank's activity, in the course and context of our audit of the separate financial statements 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 2022 by the general meeting of shareholders held on 19 December 2022 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 2022 by the general meeting of shareholders held on 19 December 2022 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 2022 represents the sixth of total uninterrupted statutory audit engagements for those 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 22 May 2023, 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 services included in the statutory audit scope, the following services in the total amount of BGN 108 thousand which have not been separately disclosed in the separate and consolidated financial statements of the Bank and the Group:
    - Agreed-upon Procedures Report in connection with the requirements by Art. 24, paragraph 1, point 7c of Ordinance 2 by BNB from December 2006.
    - Limited reviews in accordance with the ISRE 2410 of the consolidated special purpose financial statements of the Group and KBC Bank Bulgaria EAD (merged into the Bank on 10 April 2023) and its subsidiaries as required by art. 24, paragraph 1, point 7a of the Ordinance 2 by BNB from 22 December 2006.
    - Agreed-upon Procedures Report in connection with the calculation of the 2023 ex-ante contributions of the Bank to the Single Resolution Fund.
- For the period to which our statutory audit refers, Grant Thornton OOD has not provided to the Bank and its controlled undertakings any services, in addition to the services included in the statutory audit scope.

For PricewaterhouseCoopers Audit OOD:	For Grant Thornton OOD:
Jock Nunan Procurator	Mariy Apostolov Managing partner
Pavel Pirinski Registered auditor responsible for the audit	Gergana Mihaylova Registered auditor responsible for the audit
9-11, Maria Luiza Blvd. 1000 Sofia, Bulgaria	26, Cherni vruh Blvd. 1421 Sofia, Bulgaria
22 May 2023	22 May 2023

ANNUAL SEPARATE AND CONSOLIDATED ACTIVITY REPORT OF UNITED BULGARIAN BANK AD (UBB) As of 31.12.2022 (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 2022 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 154 branches, 16 business centers and 11 remote work places across the country all serviced by 2 372 employees on individual base / 2 408 employees on consolidated base (2021: 2 555/2 618) 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 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.

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

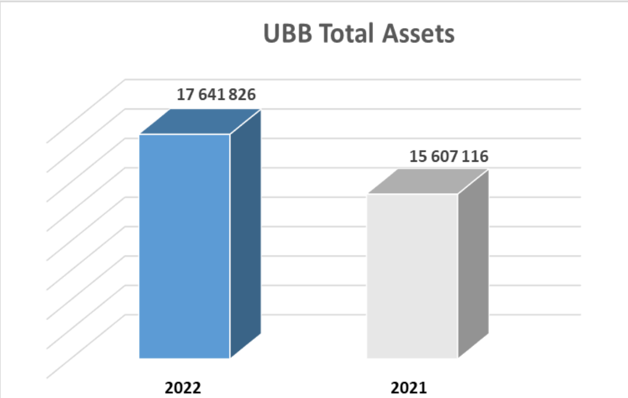
The Bank has a two-tier management system – Management Board and Supervisory Board. All of the Management Board members are Executive Directors of UBB.

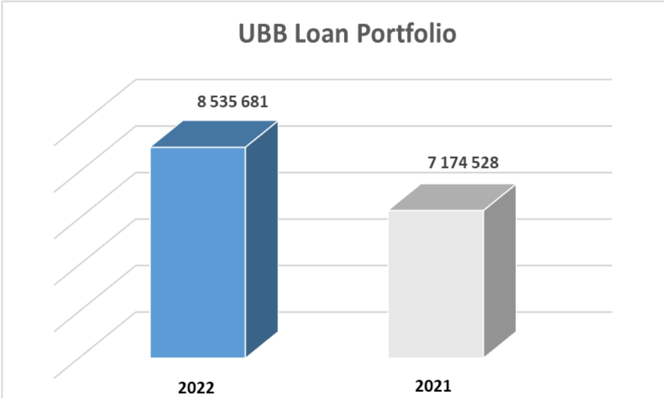
1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

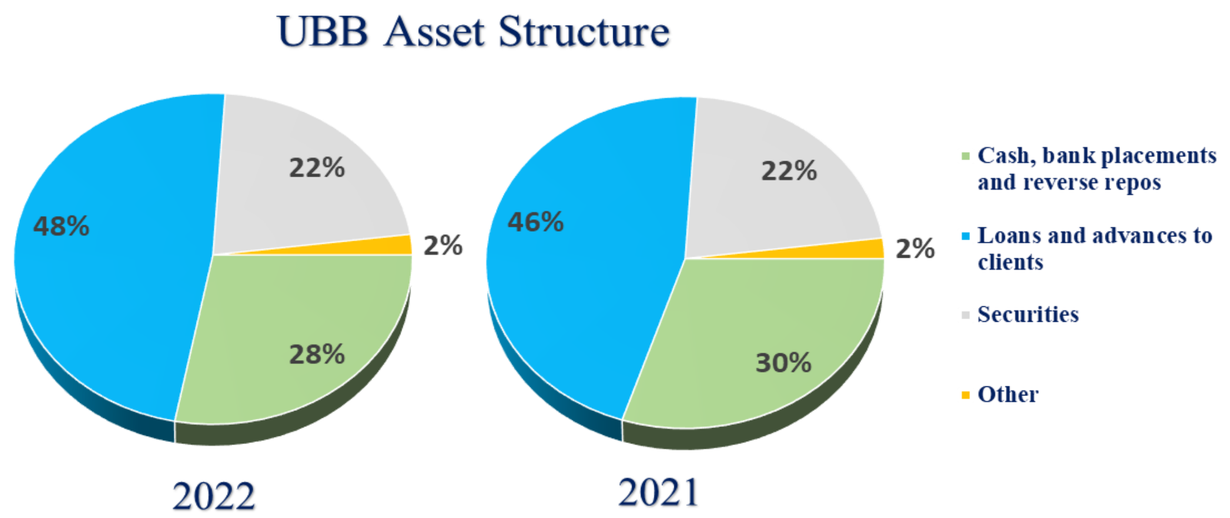
During the 2022, the Bank and its subsidiaries (hereinafter UBB or the Group) managed to achieve a significant increase of its assets, strengthening its positions as one of the most dynamically growing bank groups in the Bulgarian market. In 2022, the Group's total assets grew by more than 13% compared to the end of 2021 reaching BGN 17 642 million (2021: BGN 15 607 million). The net book value of loans and advances to customers increased by 19% (or BGN 1 361 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 securities representing mainly debt instruments at amortized costs increase by impressive 11.8% (BGN 402.7 million). The latter is a result of the acquisition of mainly Bulgarian Government Debt securities throughout the year.



At 31 December 2022 the UBB's total liabilities on a consolidated base amounted to BGN 16 068 million (2021: BGN 13 973 million). The 15% growth compared to the previous year is mainly contributed by an increase of cutomer's deposits by 10% and also higher deposit from banks related to liquidity management purposes.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

Despite of the tremendously challenging 2022, marked by the outburst of the conflict between Russia and Ukraine, UBB managed to deliver an excellent performance with solid growth of Total income (an increase of BGN 49.4 million or +12.2% compared to FY 2021) supported by improving NII and positive evolution of the NFC income, fully compensating for the higher OPEX. However, as a direct consequence of the increased Geopolitical risks and in line with its stringent risk policy, the Bank booked additonal provisions (management overlay) amounting to BGN 35.6 million. This affected adversely the Net profit, which as a result declined on annual basis by BGN 19.3 million.

Net interest income inreased on annual basis by 13% (or BGN 33.4 million) driven by the robust loan portfolio growth and underpinned by increasing interest rates on loans, mainly in the Business lending. The net fee and commissions income increased by 10% (or BGN 14.2 million) for UBB, primarily thanks to the continued post-Covid-19 recovery of the Payment business. 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 require a substantial investment, which was one of the drivers that increased the operating expenses in 2022 by 8.6% (or BGN 18.5 million) for UBB compared to 2021. Additionally, during the year the Bank increased the salaries of its employees to help them cope with the surging prices and higher cost of living, solidifying its image as top employer and a place where one can grow and develop.

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 228% 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 for 2023

Despite the consequences post-Covid-19 recovery and the ongoing war between Russia and Ukraine, 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 stress test developed by KBC Group Risk related to Covid-19 continued to be performed in 2022. There is a significant increase in outflows and a decrease in inflows by calculating the LCR.

A stress test scenario is also applied where 100% outflow of attracted funds from top 10 depositors is assumed.

Although the geopolitical and emerging risks put the market in a situation of severe stress, it has not affected liquidity and funding adequacy of UBB so far. Currently applied stress tests show that UBB can withstand such adverse developments.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.2 Liquidity(Continued)

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 2022 as per accounting data amounts to BGN 1 573 510 thousand (2021: BGN 1 634 733 thousand) and as per the requirements of Basel III it amounts to BGN 1 373 794 thousand (2021: BGN 1 437 390 thousand).

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

The Group's equity at 31 December 2022 as per accounting data amounts to BGN 1 574 299 thousand (2021: BGN 1 634 402 thousand) and as per the requirements of Basel III it amounts to BGN 1 373 418 thousand (2020: BGN 1 435 598 thousand).

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

Ratio	Separate		Consolidated	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**
Total capital adequacy ratio (%)	18.64%	21.24%	18.29%	20.91%
Tier-I capital adequacy ratio (%)	18.64%	21.24%	18.29%	20.91%

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

The main factors influencing the prospects for development of UBB AD and of the banking system as a whole are the weaker-than-expected economic growth in the euro area and Bulgaria, increasing interest rates to overcome, the increasing inflation resulting from the Russia/Ukraine war and energy crisis, as well as the ever-increasing competition in the banking sector.

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.

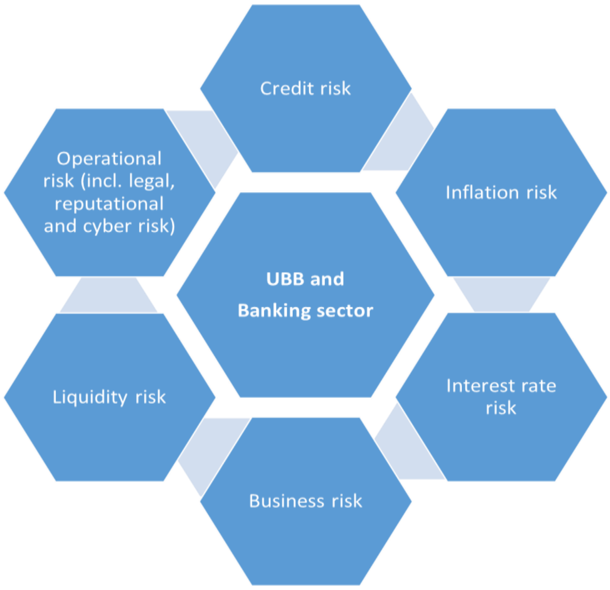
In the situation of a limited economic growth the Bank works systematically for maintaining effective risk management, whereas the efforts made are directed towards improving the processes in the areas of lending and settlement and maintaining the credit portfolio quality. The emphasis is placed on the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

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.3.Capital resources (CONTINUED)

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



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 2022, despite the consequences post-Covid-19 recovery and the ongoing war between Russia and Ukraine, 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. In the middle of the year, the ability to apply for and draw on a fully digital consumer loan was upgraded, including the option to choose between fixed and paying interest, as well as applying for and drawing on a credit card. In the course of the year, an opportunity to purchase an insurance product aimed at the mass consumer was offered, namely the purchase of Property Insurance.

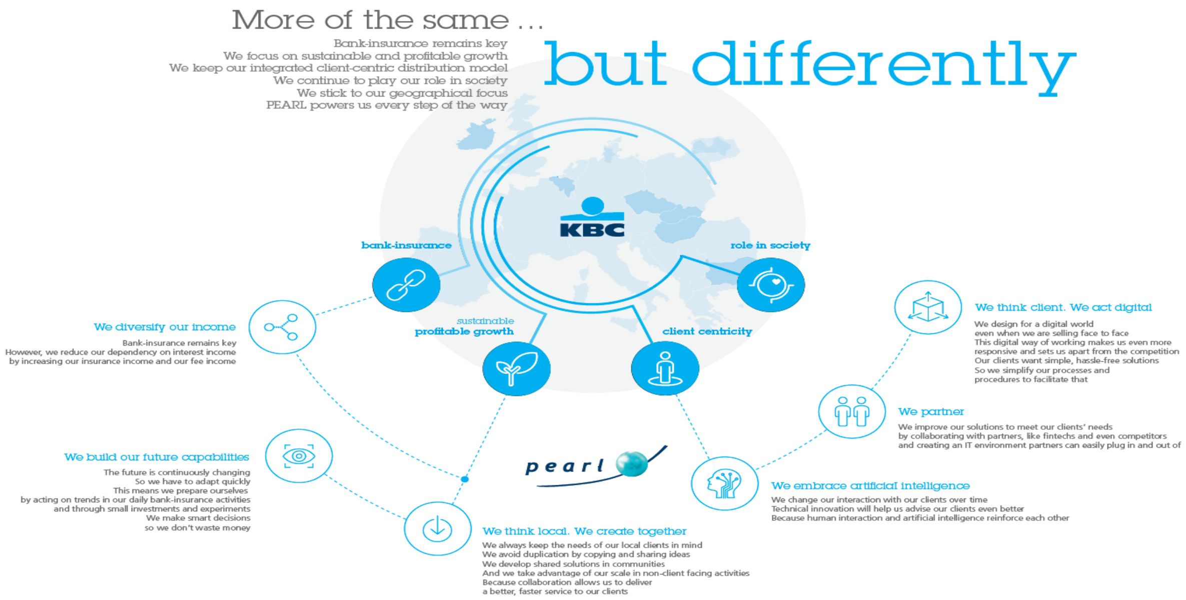
1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.4.Strategic development of UBB (continued)

Central to the bank's strategy in terms of target segments are building long-term relationships with customers across all age groups. And to this effect, after offering a payment package for young people (18-25 years), UBB expanded its offer for the segment and created an opportunity to apply for and take out a loan for students utilizing state financial support in accordance with the terms of the Law on lending to students and doctoral students and on the basis of a model contract concluded between UBB AD and the Ministry of Education and Science. UBB continued to be a preferred partner for customers from its main target sub-segments - retail (mass-affluent, affluent and premium customers), small and medium-sized enterprises and mid- and large-cap corporate customers, in order to balance growth, risk and profitability.

We encourage our employees to behave responsibly and to be customer and result-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 and face-to face consultations. 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*:



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 2023 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.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.5.Expected financial results (continued)

The level of non-performing loans will be closely monitored while it is expected that impairment expenses will be highly dependent on the significant impact on the overall macro and political situation in the region.

We expect gradual increase of NII supported by the favourable evolution of interest rate benchmarks, more pronounced in the EUR-denominated loans, while local currency exposures follow the general tendency with a substantial time lag.

Last but not least, the performance of UBB will be boosted by the expected positive effects from the planned take over of KBC Bank Bulgaria EAD – a similar in size and performance commercial bank acquired by the parent KBC Group in July 2022. The combined entity will benefit from a number of income and cost synergies, while also demonstrating strong market positioning in all of its target segments.

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

At the end of 2022 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**

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

KBC Group NV, Belgium	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
KBC Bank Ireland PLC, Ireland	Chairman of the Board of Directors; Non-executive director
KBC Bank Bulgaria EAD	Chairman of the Supervisory Board; Non-executive director

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

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

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

- **Christine Van Rijsseghem – Member of The Supervisory Board (continued)**

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

KBC Group NV, Belgium	Member of the Board of Directors and Executive Director
KBC Bank NV, Belgium	Member of the Board of Directors and Executive Director
KBC Verzekeringen NV, Belgium	Member of the Board of Directors and Executive Director
K&H Bank Zrt., Hungary	Non-executive member of the Board of Directors
KBC Ireland PLC	Non-executive member of the Board of Directors
Československá Obchodná Banka a.s., Republic of Slovakia	Member of the Supervisory Board, non-executie funtions
Československá Obchodní Banka a.s., Chez Republic	Member of the Supervisory Board, non-executie funtions
KBC Bank NV, Dublin Branch	Member of the Supervisory Board, non-executie funtions
Women in Finance Belgium - WIF	Non-executive member of the Board of Directors
KBC Global Services NV	Member of the Management Board and Executive Director, non-executie funtions
De Warande	Non-executive member of the Board of Directors
KBC Bank Bulgaria EAD	Member of the Supervisory Board, non-executie funtions

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

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

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
TRIaz	Chairman of the Board of Directors, Non-executive director

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)

- **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

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:

KBC Bank Bulgaria EAD	Member of the Supervisory Board
Pension Insurance Company Allianz Bulgaria AD	Member of the Supervisory Board

- **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:

KBC Bank Bulgaria EAD	Member of the Supervisory Board
Fund for Sustainable Urban Development EOOD	Chairperson of the Management Board

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

- KBC Bank Bulgaria EAD – Chairperson of the Management Board and Chief Executive Officer.

- **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

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

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.7.Management Board of UBB AD (continued)

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

a) She does not participate in commercial companies as a general partner;
b) There are no legal entities wherein she holds directly or indirectly at least 25% of the votes in the general meeting or over which she has control;
c) Legal entities besides UBB AD in whose management or control bodies he participates:
- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer.

- **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:
- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer
- UBB Interlease EAD - Member of the Board of Directors

Mr. Teodor Marinov is a member of the Management Board of the association 'United for charity' which is a non-profit legal entity.

- **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:
- Pension Insurance Company UBB EAD – Member of the Supervisory Board
- KBC Investment Management EAD – Member of the Supervisory Board
- BORICA AD - Member of the Board of Directors
- Cash Services Company AD - Member of the Board of Directors

- **Ani Angelova – 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:
- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer
- KBC Investment Management EAD – Member of the Supervisory Board

- **Dobromir Dobrev – 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) Other legal entities besides UBB AD in whose management or control bodies she participates:
- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer
- KBC Investment Management EAD – Member of the Supervisory Board
- UBB Interlease EAD - Chairperson of the Board of Directors
- UBB Insurance Broker EAD - Chairperson of the Board of Directors

Mr. Dobromir Dobrev is a member of the Management Board of the Foundation Atanas Burov which is a non-profit legal entity.

REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.7.Management Board of UBB AD (continued)

- **Nedyalko Mihaylov – 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) Other legal entities besides UBB AD in whose management or control bodies she participates:
- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer

Mr. Nedyalko Mihaylov is a member of the Management Board of the Association TMA Bulgaria - a non-profit legal entity, which does not exercise activity.

1.8.Contracts under Article 240b of Commercial Act concluded in 2022

In 2022 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 2022 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. 18 of 05.07.2022 Mr. Christof De Mil was released as a Management Board member and Executive Director of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 14.07.2022. The number of members of the Management Board was changed from 7 (seven) to 6 (six).
- By decision of the Supervisory Board of UBB AD under Minutes No. 20 of 15.07.2022 Mr. Ivaylo Mateev was released as Management Board Member and Executive Director of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 29.07.2022. The number of members of the Management Board was changed from 6 (six) to 5 (five).

With the same Minutes of the Supervisory Board a preliminary approval was given for the withdrawal of the authorization (special power of attorney – procuration) and terminating of the management contract of the Procurator of the bank – Mrs. Hristina Filipova. The decision for the withdrawal of the authorization of the Procurator of the bank was taken by the Management Board in Minutes No. 37 of 20.07.2022.
The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 29.07.2022.

- By decision of the Supervisory Board of UBB AD under Minutes No. 25 of 07.10.2022 changes were approved in the composition of the Management Board of UBB AD, under the condition that the Bulgarian National Bank in close cooperation with the European Central Bank issue the relevant approval, namely: Ani Vasileva Angelova, Dobromir Slavov Dobrev and Nedyalko Velikov Mihaylov were appointed as new members of the Management Board and Executice Directors of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 15.11.2022. The number of members of the Management Board was changed from 5 (five) to 8 (eight).

In 2022 no personal changes were made in the composition of the Supervisory Board of the Bank.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

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

The amount of the remuneration of the members of the management and supervisory bodies of UBB for the financial year 2022 is BGN 2 637 thousand on individual base and 2 888 thousand on consolidated base (2021: BGN 2 858 thousand on individual and BGN 3 202 thousand on consolidated base).

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 2022 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 February 2023, the Governance Council of ECB together with the Local Regulator BNB decided that there is no reason to oppose the envisaged take-over of KBC Bank Bulgaria EAD by UBB AD, based against the criteria set out in Article 29, paragraph 1, item 3 and paragraph 2 and 3, Article 29b, paragraphs 2 and 3 of the Bulgarian law on credit institutions in connection with Article 23 and 24 of Bulgarian Ordinance No2 on the licenses, approvals and permissions granted by the Bulgarian National Bank according to the law on credit institutions.

Considering that both KBC Bank Bulgarian EAD and United Bulgarian Bank AD are credit institutions with licenses of an identical scope of activities and on the basis of the information provided in their applications as well as on regulatory reports and financial statements, the ECB has assessed that the take-over will not lead to significant changes or impacts to the governance, capital, liquidity and financial situation of United Bulgarian Bank AD. No material issues were identified which could negatively affect the ability of United Bank AD to continue to reliably and steadily exercise its bank activities and perform all its obligations without delay.

Date of entry in the commercial register of the legal merger of KBC Bank Bulgarian EAD and United Bulgarian Bank AD is 10.04.2023.

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 2022.

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.

1. REVIEW AND DESCRIPTION OF THE ACTIVITY (CONTINUED)

1.14. Responsibility of management (continued)

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

Teodor Marinov	Svetla Georgieva
Executive Director	Executive Director

UNITED BULGARIAN BANK AD
UBB
SOFIA

Date: 10.05.2023

Separate and Consolidated Corporate Governance Statement
of United Bulgarian Bank AD (UBB)
as of 31.12.2022
(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. 7 of the *Public Offering of Securities Act and UBB AD Corporate Governance Code*.

The *Corporate Governance Code of United Bulgarian Bank AD* 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).

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 on the Requirements to the Members of the Management and Controlling Bodies of a Credit Institution and on the Assessment of the Suitability of Their Members and the Key Function Holders 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 2022 no personal changes were made in the composition of the Supervisory Board of the Bank.

Committees to the Supervisory Board

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

The Risk and Compliance Committee is a sub-committee to the Supervisory Board. This committee consults the Supervisory Board on the overall current and future risk appetite and risk strategy, as well as the current and future rules on compliance. It supports the Supervisory Board in the monitoring and control on the application of these elements and rules by the senior management. This committee has no other powers and responsibilities than those delegated by the Supervisory Board.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Committees to the Supervisory Board (continued)

The Risk and Compliance Committee (continued)

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.

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.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

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, 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 2022 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. 18 of 05.07.2022 Mr. Christof De Mil was released as a Management Board member and Executive Director of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 14.07.2022. The number of members of the Management Board was changed from 7 (seven) to 6 (six).
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With the same Minutes of the Supervisory Board a preliminary approval was given for the withdrawal of the authorization (special power of attorney – procuration) and terminating of the management contract of the Procurator of the bank – Mrs. Hristina Filipova. The decision for the withdrawal of the authorization of the Procurator of the bank was taken by the Management Board in Minutes No. 37 of 20.07.2022.
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- By decision of the Supervisory Board of UBB AD under Minutes No. 25 of 07.10.2022 changes were approved in the composition of the Management Board of UBB AD, under the condition that the Bulgarian National Bank in close cooperation with the European Central Bank issue the relevant approval, namely: Ani Vasileva Angelova, Dobromir Slavov Dobrev and Nedyalko Velikov Mihaylov were appointed as new members of the Management Board and Executice Directors of UBB AD. The change was officially registered in the Commercial Register and the Register of Non-profit Legal Entities on 15.11.2022. The number of members of the Management Board was changed from 5 (five) to 8 (eight).

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

Committees to the Management Board

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

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

- **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 the portfolio of the Distressed Assets Directorate and acquired assets with a value higher than EUR 1,000,000.
- **The Portfolio Steering Committee (PSC)** is strategic decision-making body which gives vision, direction and targets of the bank's strategy execution via Change of the Bank portfolio. The body is authorized to approve strategic portfolio roadmap creation /change, overall prioritization / re-prioritization, examines the viability of the project portfolio, reviews and monitors the project portfolio's progress, takes decisions on starting new projects and agile teams, Stage Gating Decisions: Initiation/Set-up, Go or No Go decision, Closure, termination of projects and teams, allocation and re-allocation of budgets and resources in order to execute bank strategy in smartest way.

1. CORPORATE GOVERNANCE REVIEW (CONTINUED)

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 31.12.2022 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.

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 Rijsseghem 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	2026
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. SUPERVISORY BOARD (SB)

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 and with a resolution of the General Meeting of Shareholders dated 03.06.2022 he 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 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.

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.

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.2.Election and mandate (continued)

SB Responsibilities pursuant to UBB Articles of Association (continued)

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

In 2021 Peter Andronov joined the Executive Committee of KBC Group as executive director and CEO Business Unit International Markets, thus assuming responsibility for the Group's business in four of its core markets – Bulgaria, Hungary, Slovakia and Ireland. Within his new assignment Mr. Andronov became also responsible for KBC Asset Management and hence Chairman of its Board of Directors. In 2021 he also took over the Chairmanship of the Supervisory Boards of DZI General Insurance and DZI Life Insurance, and similarly for the entities of the Group in the other three countries.

Peter Andronov's career path involves series of positions in the BNB and in the private banking sector. During 2002 – 2007 he was Chief Director Banking Supervision Department at the Bulgarian National Bank. During his term he led the elaboration of key currently effective legislative acts on banking regulation and supervision, including the Credit Institutions Act, the Act on the Additional Supervision on Financial Conglomerates, the BNB regulatory ordinances, guidelines etc. From 2003 until May 2007 he was Member of the Management Board of the Reserve Guarantee Fund. He was also member of the BNB Investment Committee. Over the period 2005–2007 Peter Andronov was observer and member at the European Banking Committee and at the Committee of European Banking Supervisors of 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 authorities he led the negotiations in the domain of banking for Bulgaria's accession to the European Union.

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

Mr. Peter Andronov (continued)

Peter Andronov's career at KBC Group started in July 2007 when he was appointed Executive Director/CRO of CIBANK. Later in March 2008 he became CEO of the same bank. As from the acquisition of UBB by the Belgian financial group KBC in June 2017 up until May 2021 Peter Andronov was Chairman of the Management Board and CEO of UBB AD (created out of the merger between CIBANK and former UBB).

From March 2011 till May 2021 Peter Andronov also acted as Country Manager of KBC Group for Bulgaria. Over the period 2008 - 2021 Peter Andronov was Member of the Management Board of the Association of Banks in Bulgaria, serving two mandates as its Chairman – from 2015 till 2018 and from 2018 until 2021.

From 1995 till 2016 Peter Andronov has been lecturing during different periods at the UNWE, at the High School of Insurance and Finance and at New Bulgarian University/the International Banking Institute. Since 2017 he is member of the Board of Trustees of the University of National and World Economy, and from 2020 of Sofia University St. Kliment Ohridski as well.

Peter Andronov is five-times 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. In 2015 he was decorated an Officer 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 Body
KBC Global Services NV	Member of the Management Board
KBC Bank Ireland PLC, Ireland	Chairman of the Board of Directors; Non-executive director
KBC Bank Bulgaria EAD	Chairman of the Supervisory Board; Non-executive director

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

Ms. Christine Van Rijsseghem
Supervisory Board Member
Chief Risk Officer at KBC Group NV
Year of Birth: 1962

Christine Van Rijsseghem holds a Master's Degree in Law from Ghent University, Belgium. Moreover, she also holds a Master's Degree in Business Administration (MBA) – Financial Sciences from Vlerick Business School.

Christine Van Rijsseghem started her professional career in University Graduates Team, Kredietbank in 1987. From 1988 until 1991 she worked for Central Department Foreign Entities at Kredietbank (risk management and controlling). In 1992 she became Head of Central Department of Foreign Entities (incl. International acquisition strategy). Over the period from 1994 until 1996 she held the position Head of Credit Department at Irish Intercontinental Bank (KBC subsidiary). Christine Van Rijsseghem became Chief Executive Officer of KBC France (KBC branch) in 1996 and in 1999 – Chief Executive Officer of KBC London (KBC branch). From 2000 until 2003 she held the position Senior General Manager of Securities and Derivatives Processing Directorate, while during the period 2003 – 04.2014 she took the position of Senior General Manager Group Finance at KBC Group. In effect since May 2014 Christine Van Rijsseghem has been elected CRO of KBC Group and Member of the Executive Committee of KBC Group.

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

KBC Group NV, Belgium	Member of the Board of Directors and Executive Director
KBC Bank NV, Belgium	Member of the Board of Directors and Executive Director
KBC Verzekeringen NV, Belgium	Member of the Board of Directors and Executive Director
K&H Bank Zrt., Hungary	Non-executive member of the Board of Directors
KBC Ireland PLC	Non-executive member of the Board of Directors
Československá Obchodná Banka a.s., Republic of Slovakia	Member of the Supervisory Board, non-executie funtions
Československá Obchodní Banka a.s., Chez Republic	Member of the Supervisory Board, non-executie funtions
KBC Bank NV, Dublin Branch	Member of the Supervisory Board, non-executie funtions
Women in Finance Belgium - WIF	Non-executive member of the Board of Directors
KBC Global Services NV	Member of the Management Board and Executive Director, non-executie funtions
De Warande	Non-executive member of the Board of Directors
KBC Bank Bulgaria EAD	Member of the Supervisory Board, non-executie funtions

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

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

Franky 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 Franky Depickere became managing Director and Chairman of the Executive Committee of F. van Lanschot Bankiers Belgie NV, as well as group director of F. van Lanchot Bankers in the Netherlands. Since 2005 onwards Depickere was also a member of the Strategic Committee of F. van Lanchot Bankiers (the Netherlands).

As of September 2006, he is Managing Director of Cera and KBC Ancora. Franky Depickere participates in managing bodies of several non-profit legal entities – Chairman of BRS vzur (Leuven, Belgium). He is a Chairman of the 'lnternational Raiffeisen Union' (l.R.U. – Bonn, Germany), Member of the Executive Committee of EACB (European Association of Cooperative Banks in Brussels Belgium. 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). Currently, he is Chief Executive Officer at CERA and KBC Ancora.

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
TRIaz	Chairman of the Board of Directors, Non-executive director

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

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

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:

KBC Bank Bulgaria EAD	Member of the Supervisory Board
Pension Insurance Company Allianz Bulgaria AD	Member of the Supervisory Board

2. SUPERVISORY BOARD (SB) (CONTINUED)

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

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.

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

KBC Bank Bulgaria EAD	Member of the Supervisory Board
Fund for Sustainable Urban Development EOOD	Chairperson of the Management Board

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 Rijsseghem	•	(Chairperson)		
Franky Depickere	•			
Barak Chizi	•			
Svetoslav Gavriiski	•	•	•	•
Victor Yotzov	•	•	•	•

2. SUPERVISORY BOARD (SB) (CONTINUED)

2.5.Annual Report of the Supervisory Board

In 2022 the Supervisory Board of United Bulgarian Bank held 32 meetings, of which 4 *in praesentia* and 28 *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 2022 regular *in praesentia* meetings were held every quarter – March, June, September and December 2022.

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 2022 may be summarized, as follows:

1. The first group of topics reviewed by the Supervisory Board during 2022 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 2022 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, letters "d" and „h"of the UBB's Articles of Association were approved changes in the organizational structure and 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 2022 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, reports regarding the acquisition of Raiffeisenbank /Bulgaria/ by KBC BANK N.V. and the progress of the integration of UBB AD and KBC Bank Bulgaria EAD (former name Raiffeisenbank /Bulgaria/), 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.
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 2022 – approval of the report of the MB for the activity of UBB AD for 2021 and the certified by the auditor's annual financial report for 2021, 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 2022 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 2022, on consolidated basis, as well as the KPIs of UBB AD for 2022, on consolidated basis; aapproval of the decisions of the Management Board regarding the transfer of 100 % of the shares of "UBB-INSURANCE BROKER" EAD, sole-owned by UBB AD, to "UBB INTERLEASE" EAD; the innovations in the bank; progress report on Corporate and Social Responsibility Program of UBB AD; evaluation of customer experience; topics in the human resources area. The SB also took decisions with regard to the merger of KBC Bank Bulgaria EAD with UBB AD, conditional upon regulatory approval.

The activity of the Supervisory Board over 2022 aimed at ensuring effective control on the compliance of UBB's operations with the applicable laws the Articles of Association and the resolutions of the General Meeting of Shareholders in the interest of UBB's clients and its shareholders while guaranteeing the implementation of the long-term strategy and the set immediate objectives before UBB AD for the accomplishment of which UBB's Management Board is accountable.

3. MANAGEMENT BOARD

3.1. Management Board Members

Name	Year of Birth	Position	Education/ Qualification
Peter Roebben **Chairman**	1966	Chief Executive Officer	Master's Degree in Law and Business Administration
Teodor Marinov **Member**	1971	Chief Finance Officer	Master’s Degree in Systems & Management and Business Administration
Svetla Georgieva **Member**	1967	Chief Risk Officer	Master’s Degree in International Business Management and Business Administration qualification in Industrial Electronics
Desislava Simeonova **Member**	1972	Executive Director Small and Medium Enterprises	Master’s Degree in Law
Tatyana Ivanova **Member**	1975	Executive Director Digitalization, Data and Operations	Master’s Degree in Finance and Management Business Administration
Ani Angelova **Member**	1974	Executive Director Retail Banking	Master’s Degree in Business Administration in General Management
Dobromir Dobrev **Member**	1979	Executive Director Corporate Banking and Markets	Master’s Degree in Finance and Banking
Nedyalko Mihaylov **Member**	1977	Chief Information Officer	Master’s Degree in Accounting and Control

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 8 (eight) persons who have been elected MB members by virtue of decisions of the Supervisory Board for a period of 4 (four) years in accordance with the requirement of Art. 41, Para. 1 of the UBB’s Articles of Association.

3. MANAGEMENT BOARD (CONTINUED)

3.2.Election and mandate (continued)

MB Responsibilities pursuant to UBB's Articles of Association

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

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

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

The Management Board has the following powers:

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

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.

Legal entities besides UBB AD in whose management or control bodies he participates:

• KBC Bank Bulgaria EAD – Chairperson of the Management Board and Chief Executive Officer.

Mr. Teodor Marinov
Member of the MB and Chief Finance Officer
Year of Birth: 1971

Teodor Marinov has been part of United Bulgarian Bank's management since June 2010, when he was elected member of the Board of Directors, while holding the position of Executive Manager Corporate Banking of the Bank since September the same year.

After the acquisition of United Bulgarian Bank by the Belgian finance group KBC Group in June 2017, Teodor Marinov has become member of the KBC Country Team in Bulgaria, member of the Management board and Executive Director Legacy of UBB. In July 2022 he has become Executive Director Finance. During the period 2001-2010, he was Executive Director of Interlease EAD and since 2006 has been also involved in the management bodies of the leasing companies of the group of the National Bank of Greece in Romania and Serbia.

His professional development began in 1994 as a Financial Analyst at the Sofia Stock Exchange. In 1995-1997 he worked as a Customer Relationship Manager and Credit Analysis Unit Manager at the Bulgarian Investment Bank AD. From 1997 until 2000 he was Investments Manager in the Balkan Regional Division of the National Bank of Greece.

Teodor Marinov holds Master's degrees in Business Administration from London Business School and in Systems Control from the Technical University, Sofia. He has been a holder of CFA (Certified Financial Analyst) professional designation since 2001. Marinov also completed the INSEAD Inter-Alpha Banking Programme in 2002.

Legal entities besides UBB AD in whose management or control bodies he participates:

- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer
- UBB Interlease EAD - Member of the Board of Directors

Mr. Teodor Marinov is a member of the Management Board of the association 'United for charity' which is a non-profit legal entity.

3. MANAGEMENT BOARD (CONTINUED)

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

Ms. Svetla Georgieva
Management Board Member and Executive Director Risk
Year of Birth: 1967

Svetla Georgieva is member of the Management board and Executive Director Risk in United Bulgarian Bank after its acquisition by Belgian finance group KBC Group in June 2017.

Her professional career includes different management positions at Citibank N.A. and ING Bank N.V. She joined the CIBANK team in 2008, and consequently held positions as head of Retail Credit Risk Department and deputy director of the Credit Management Directorate. In January 2014 she became KBC Group's Chief Risk Officer (CRO) for Bulgaria, a member of the MB and an Executive Director of CIBANK.

Svetla Georgieva graduated under the INSEAD Inter-Alpha Banking Programme (2013) from City University, Seattle, DCL (2004-2006) and has an MBA degree in Finance.

She also has a Master's degree in industrial electronics from the Moscow Power Engineering Institute (1985-1991), a postgraduate qualification in International Economic Relations and International Law from the University of National and World Economy (1992 - 1993) and the University of Delaware / FLAG Consortium in Sofia (2001 -2002).

Legal entities besides UBB AD in whose management or control bodies he participates:

• KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer.

Mrs. Desislava Simeonova
Management Board Member and Executive Director SME & Corporate Segment
Year of Birth: 1972

Desislava Simeonova holds a Master’s degree in Law. She started her professional career as a legal trainee at Sofia City Court. In 2000 she was appointed as a public enforcement agent at the State Receivables Collection Agency to the Ministry of Finance. Subsequently she also worked as a legal counsel at the Legal Directorate and an expert to the Inspectorate of that same institution.

Over the period 2004 – 2008 she worked as a legal counsel at the Bulgarian National Bank, Banking Supervision Department. She joined the team of CIBANK more than 10 years ago in 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 United Bulgarian Bank by the Belgian financial group KBC in 2017 Desislava Simeonova took over the function of SME Distribution Director at UBB.

In July 2022 she became leader of KBC Group’s Sustainable Finance Programme.
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

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

3. MANAGEMENT BOARD (CONTINUED)

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

Mrs. Tatyana Ivanova
Member of the Management Board and Executive Officer Digitalization, Data and Operations
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.

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 Ivanova was elected in the position Digital Channels, Data and Operations of UBB in November 2022.

Tatyana holds EMBA from HEC-Paris.

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

- Pension Insurance Company UBB EAD – Member of the Supervisory Board
- KBC Investment Management EAD – Member of the Supervisory Board
- BORICA AD - Member of the Board of Directors
- Cash Services Company AD - Member of the Board of Directors

Mrs. Ani Angelova
Member of the Management Board and Executive Officer Retail Banking
Year of Birth: 1974

Effective from November 2022 Ani Angelova has been elected to hold the Executive Director Retail Banking position at UBB. Ani Angelova has been part of KBC Bank Bulgaria (formerly Raiffeisenbank Bulgaria EAD) since 1995 and until her election for the position of Executive Director and MB member in 2007, she has been Procurator in the Distribution Channels domain.

Since June 2016 she was Chairperson of the Supervisory Board of KBC Investment Management (formerly Raiffeisen Asset Management 08.2008 – 03.2012 (Bulgaria) EAD).

Ani Angelova has graduated from Konstatin Kiril Filosof National Ancient Languages and Cultures High School, then she acquired a degree in Business Management and Administration from the Unversity of National and World Economy and an MBA from Rotterdam School of Management in The Netherlands. She worked for Fortis Bank, The Netherlands. In 2013 she graduated from the Advance Management Programme at IESE, University of Navarra, Barcelona.

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

- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer
- KBC Investment Management EAD – Member of the Supervisory Board

3. MANAGEMENT BOARD (CONTINUED)

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

Mr. Dobromir Dobrev
Member of the Management Board and Executive Officer Corporate Banking and Markets
Year of Birth: 1979

Dobromir Dobrev was elected in the position Executive Director Corporate Banking at UBB in November 2022. He has been part of the team of KBC Bank Bulgaria (former name Raiffeisenbank (Bulgaria) EAD) since 2003, as in 2005 he was appointed head of Corporate Banking – Middle Market. Since 2006 onwards he manages KBC Leasing Bulgaria.

In 2013 he became a member of MB for the Corporate Banking domain, while in 2006 he was chosen to be Executive Director Corporate Banking and Capital Markets of KBC Bank Bulgaria.

Dobromir Dobrev holds a Master's degree in Finance and Banking from the Faculty of Economics, Sofia University St. Kliment Ohridski.

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

- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer
- KBC Investment Management EAD – Member of the Supervisory Board
- UBB Interlease EAD - Chairperson of the Board of Directors
- UBB Insurance Broker EAD - Chairperson of the Board of Directors

Mr. Dobromir Dobrev is a member of the Management Board of the Foundation Atanas Burov which is a non-profit legal entity.

Mr. Nedyalko Mihaylov
Member of the Management Board and Chief Information Officer
Year of Birth: 1977

Nedyalko Mihaylov has been elected in the position Executive Director Information Technologies of UBB since November 2022. His career at KBC Bank Bulgaria (formerly Raiffeisenbank (Bulgaria) EAD) started in 2002, while in 2005 he assumed one of his many managerial positions at the Bank - Bank Office Manager in Varna. He was consecutively responsible for Large Corporate Clients domain over the period from 2006 until 2009, for the Risk Management domain over the period from 2009 until 2011, for the Problem Loans domain from 2011 until 2015 and for the Finance domain from 2015 until 2016.

Since January 2017 he is Executive Director Operations and Information Technologies at KBC Bank Bulgaria
Nedyalko Mihaylov graduated from the High School of Mathematics in Varna and holds a degree in Accountancy and Control, and Economic Informatics from the University of Economics, Varna.

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

- KBC Bank Bulgaria EAD – Member of the Management Board and Executive Officer

Mr. Nedyalko Mihaylov is a member of the Management Board of the Association TMA Bulgaria - a non-profit legal entity, which does not exercise activity.

3. MANAGEMENT BOARD (CONTINUED)

3.4. Annual report of the Management Board

In 2022 the Management Board of United Bulgarian Bank held 64 meetings of which 53 *in praesentia* and 11 *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 2022 may be summarized, as follows:

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

The activity of the Management Board over 2022 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. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

4.1. Risk and Compliance Committee (continued)

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 2022 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, 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 2022 Preliminary results, Report on SEPA Incident.

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 2023.

The Committee reviewed and proposed to the SB for ratification the following documents: Risk Appetite Framework of UBB for the period 2022-2025, ICAAP/ILAAP Reports, ICAAP Policy and Risk Governance Charter of UBB, UBB Risk Scan.

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.COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

4.2. Remuneration Committee (continued)

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 2022 the Committee held two meetings. The main topics on the agenda and the decisions taken at the first committee meeting related to acknowledgement of the submitted Risk Gateway parameters for 2021 of KBC Group and UBB and approval of the amended risk gateway parameters for 2022 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 2022 the topics and decisions taken related to ratification of the new KBC Group Remuneration Policy and the updated UBB Remuneration Policy for 2022, in order to comply with the Group standard.

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

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. COMMITTEES TO THE SUPERVISORY BOARD (CONTINUED)

4.3. Nomination Committee (continued)

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 2022 the Committee held two meeting. The main topics on the agenda and the decisions of the first Committee meeting related to the annual assessment of the structure, composition and performance of the Supervisory Board of UBB and acknowledgement of the results from the conducted self-evaluation of the activity of the Supervisory Board and the identified areas for improvement.

At the second meeting of the Committee in 2022 the main topics on the agenda and the decisions related to acknowledgement of the proposed changes with respect to Management Board of UBB and the collective suitability assessments of the new members of the Management Board.

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

5. AUDIT COMMITTEE

5.1.Audit Committee Members and professional experience

In compliance with the requirements in the 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).

5. AUDIT COMMITTEE (CONTINUED)

5.1.Audit Committee Members and professional experience (continued)

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.

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.

4. AUDIT COMMITTEE (CONTINUED)

5.1. Audit Committee Members and professional experience (continued)

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 in 2.3. Professional experience and other activities and functions of the current statement.

5.2. Audit Committee Report

The main topics, discussed during the 2022 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.

6.1. 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 Distressed Assets Directorate concerning UBB's problematic exposures in the cases when this is within their delegated limits of competence, as well as make decisions on their renegotiation, restructuring action plan for their monitoring, which should either continue in the business units or be taken up by PLC Directorate, announcement of early collection; proposals for provisions' allocation /write-back; proposals for participation into public auction sales, determining the sale price of assets (collaterals) and others, which nature resembles amendment of terms and conditions under existing credit contracts proposals for PD ratings' change/validation; other proposals (presented as reports or memos) of lending nature.
4. Review and approve the annual/planned reviews of all credit exposures within their approved competence limits and powers.
5. Review proposals for appeal of decisions on credit deals, which have been considered at lower approval levels and are within their delegated limits of competence and authorities.
5. 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

6. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)

6.1. Credit Committees (continued)

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. COMMITTEES TO THE MANAGEMENT BOARD (CONTINUED)

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.

'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.

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 information to 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 of Distressed Assets Directorate 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 Distressed Assets Directorate loans shall be made by UBB's Management Board. Decisions on acquisition, investments and sale of assets acquired from the portfolio of Distressed Assets Directorate, 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 Distressed Assets Directorate 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 Distressed Assets Directorate loans and acquired assets are being made by UBB's Management Board.

6.6. Projects Oversight Committee (POC) of UBB AD

PSC is authorized to strategically create and change the overall bank portfolio roadmap, prioritize / re-prioritize, set KPIs and approve start, change and termination of all projects and Agile teams. It meets once or twice per month (ad-hoc meetings are possible) and also approves all projects and agile teams Stage Gating: Initiation/Set-up, Go No Go decision, Closure and changes related to them. It consists of overall Management Board members as voting members and General Manager Integration, General Manager IT Delivery, Director Finance, Director Project, Portfolio Management and Adaptive Transformation as non-voting members.

PSC decides on the strategic projects and teams' roadmap and their priorities for the upcoming year before finalization of the APC cycle and follows-up on the progress during year with possibility of changes and new projects/teams. The body also decides on strategic implementation/usage of Project and Agile frameworks, processes and practices, review regularly comprehensive Portfolio reporting, cross-initiatives dependencies and the overall performance of the existing projects and Agile teams with aim of fast and efficient decision making and actions.

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 Desislava Simeonova, 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. Sets 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. **Promotes and engages** the internal and external stakeholders to boost awareness and increase strategic impact of the KBC group in Bulgaria on sustainability.

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 2022 is BGN 2 637 thousand on individual base and BGN 2 888 thousand on consolidated base (2021: BGN 2 858 thousand on individual and BGN 3 202 thousand on consolidated base).

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

8.2. Convening of the Genereal Meeting of Shareholders

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

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

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

8.3. 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 2022

The Regular Annual General Meeting of Shareholders of UBB AD (GMS) for 2021 took place on 03.06.2022. 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 2021, as well as a corporate governance statement of UBB AD for 2021 and a non-financial declaration of UBB AD for 2021, the report of the auditing companies on the annual financial report as well as on the consolidated annual financial report of UBB AD for 2021, certified by the auditors annual financial report, as well as of the certified by the auditors consolidated annual financial report of UBB AD for 2021.

UBB
Part of KBC Group

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

8.4. General Meeting of the Shareholders in 2022 (continued)

The proposal of the Management Board confirmed also by the Supervisory Board of the bank was approved for allocation as dividend of the net profit of UBB for 2021, at the amount of BGN 171 115 047.62 (one hundred seventy-one million one hundred and fifteen thousand forty-seven Bulgarian levs and sixty two stotinkas) to the shareholders of the bank, proportionally to the owned number of shares (BGN 1.823509 dividend per share).

On 03.06.2022 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 2021and accepting the report of the Audit Committee of the bank for 2021, as well as one of the Supervisory Board members – Mr. Franky Depickere, was re-elected for a new 4-year mandate.

In 2022 one extraordinary General Meeting of the Shareholders of the bank was held, taking the following decisions:

- Approval of the merger of KBC Bank Bulgaria EAD into United Bulgarian Bank AD;
- Approval of a merger agreement;
- Approval of a report of the management board of UBB regarding the merger;
- Increase of UBB's capital with regard to the merger and subscription of new shares;
- Amendments to the articles of association of UBB;
- Release of the Director of Internal Audit Directorate and appointment of a new Director of Internal Audit Directorate;
- Accepting of Annual report of Internal Audit function of UBB for 2021;
- Appointing of auditing companies for examination and certification of the annual financial report of UBB for 2022.

Teodor Marinov	Svetla Georgieva
Executive Director	Executive Director

Date: 10.05.2023

UNITED BULGARIAN BANK AD
UBB
SOFIA

SEPARATE AND CONSOLIDATED NON-FINANCIAL DECLARATION OF UNITED BULGARIAN BANK AD (UBB) AS OF 31 DECEMBER 2022 (In accordance with Law of Accountancy)

1. SCOPE OF ACTIVITY

KBC Group is the largest integrated financial group in Bulgaria.

Last year, the company acquired 100% of the shares of Raiffeisenbank (Bulgaria) EAD, which represents the banking activity in Bulgaria of Raiffeisen Bank International. With this transaction, KBC Group established itself as the largest investor in Bulgaria and leader in the process of the Bulgarian financial sector consolidation. Over the last 15 years of being in Bulgaria, KBC has invested EUR 2.4 billion in the acquisition and development of some of the most significant local companies and projects, among which the consecutive acquisition of DZI, CIBANK, UBB, the Bulgarian operations of NN and of Raiffeisenbank Bulgaria. By means of a targeted policy for developing Bulgaria as their core market, both through acquisitions and in an organic way, the local bank of KBC has been constantly growing its market share, by rising from No 9 position in 2007 (CIBANK), going through No 3 position in 2017 (UBB and CIBANK) up to the forecasted No 1 position (after the forthcoming merger between UBB and KBC Bank Bulgaria). The leasing and asset management businesses of KBC Group in Bulgaria also hold leadership positions.

In 2022 KBC Group in Bulgaria employs approximately 7000 people, servicing nearly 2.3 million customers.

Currently, KBC Group in Bulgaria offers products and services to business customers and individuals - micro, medium and small enterprises, large corporate customers and institutions, by focusing on digitization and offering of basic banking and pension services, as well as investment banking.

In 2022 Fitch rating agency reconfirmed UBB’s long term rating to ‘A-‘capped by the Bulgarian country Ceiling of ‘A-‘, which is the maximum of two notches above the Republic of Bulgaria’s sovereign rating (BBB/Outlook 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 reference bank on the market and a leader with sustainable profit, to be a symbol of confidence, convenience and customer care.

The strategy we follow is called FIRST and is composed of four main pillars:

- We offer a unique banking and insurance model;
- We have a dedicated approach to every customer type: individuals, small and medium-sized businesses, as well as corporate customers;
- We digitalize with priority, while keeping the human touch;
- We build a sustainable future;

We implement our strategy, while applying stringent control on the risk and on the capital and liquidity management.

It is important for us to be able to fulfill all our commitments without external support. We aspire to win over and retain the trust of our customers, our investors, state and supervisory authorities, our shareholders, our employees and the society as a whole.

1. SCOPE OF ACTIVITY(CONTINUED)

1.1 OUR GOAL AMBITION AND STRATEGY(CONTINUED)

To us sustainability is not part of a standalone plan, but it is interwoven in our overall corporate strategy and is, consequently, embedded in its four pillars (financial literacy, promoting entrepreneurship, health and environment) and in our daily commercial activities. To us this means that we are able to meet the expectations of all stakeholders not only today, but also going forward.

Sustainability, however, is only possible as long as we maintain the trust of society, which means we need to operate as responsible companies that:

- constantly monitor the impact of their activity on the society;
- meet the needs and expectations of society in a balanced, relevant and transparent manner.

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

1.2. OUR VALUE CREATION

Based on the capacity and experience we have, we provide our customers with the opportunity to invest and save in a well-informed manner. Thus, every customer of ours can increase their assets in line with their personal risk profile and rely on the expertise of the Bank's employees. We use depositors' funds to provide financing to individuals, businesses and institutions, which in their turn use funds to create added value in the society.

We also hold a portfolio of investments, which means we indirectly participate in the economy. Also, 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 a depositary and a lender ultimately means that we take on our customers' risks instead of them. Our risk and capital management know-how allow us to manage those risks. We also offer other various services to our customers that are important to their daily needs, including payments, cash management, trade finance, asset management, insurance brokerage and factoring. Thus, we contribute to the sustainable growth of the economy.

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

Clients	
Retail	847 322
Business	64 083
Employees	2 372
Bank branches and offices	181

UBB's long-term credit rating

Fitch (July 2022)	BCRA (September 2022)
A-	A-

Our shareholders

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

1. SCOPE OF ACTIVITY(CONTINUED)

1.2 OUR VALUE CREATION(CONTINUED)

Income Generation

We lend to customers, while considering our risk appetite and the relevant legislation. We accumulate funds for our lending activity mainly through customer savings. We offer our customers a wide range of investment products and advise them on managing their assets. We support our customers 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 others. We invest part of our funds in securities.

Risk-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 technologies to improve our efficiency and service our customers even more effectively. We contribute to society by paying income tax and special bank levies.

1.3. WHAT MAKES US WHO WE ARE

We recap our business culture and values in the acronym *PEARL*, which is an abbreviation of the English words *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 and the extent to which this culture has been embraced by our staff. 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 customers in Bulgaria. Responsiveness is very important to us. This means that we know and understand better our customers, that we effectively identify their alerts and react promptly and adequately to those, as well as offer products and services, tailored to their needs. This also means that we focus 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 global political uncertainty dynamic changes in inflation and interest rates, demographic aging
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 the economic situation, intensifying competition, technological changes, regulation, 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 customers 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. Being the largest financial group in Bulgaria, we provide our customers with the opportunity to obtain comprehensive financial solutions, thus saving money and time.

2.1. THE WORLD ECONOMY AND GEOPOLITICAL CHALLENGES

The war in Ukraine made year 2022 into a turning point for the development of the European and Bulgarian economies. It broke out at a time when economies were actively recovering from the COVID 19 pandemic and began to feel the rise of inflation. A new systemic risk for barely recovered economies materialized - that of the war, which brought economic sanctions, disruption of traditional supply chains, global increases in energy and commodity prices, galloping inflation in consumer prices, sharpening of political positions and social conflicts. In response, governments launched programs to support households and businesses while central banks tightened monetary policy. Hence, the growth of inflation slowed down and its trend broke, whereas interest rates rose restraining economic growth. Controlling permanently the inflation and achieving though economic growth remains a central issue to be solved in the future.

KBC home markets, strongly dependent on economic development in euro area and energy imports from Russia, were significantly exposed to upward inflationary and downward growth pressures in 2022. Against this background, Bulgaria got once again in a political crisis, manifested in the inability to form a ruling majority and government after the October elections. They were the result of a successful vote of no-confidence in the fourth party coalition with Prime Minister Kiril Petkov. The power in the second half of the year was taken over by a caretaker government appointed by the president.

Despite the highly turbulent environment, Bulgarian economy achieved a very good result of 3.4% real growth in 2022, even more, compared to the high base of the previous year (7.8% for 2021). Out of the GDP components, consumption (private and public) reported an increase by 5.2% yoy while gross fixed capital formation (investments) collapsed again by -4.3% yoy driven by high uncertainty. Total exports (of goods and services) registered a stable growth of 8.3% yoy remaining far below the increase pace of imports by 10.5% yoy during the year. All in all, the economic growth in 2022 was a result of an increase in domestic demand, whereby the decline in investment was more than compensated by the increase in consumption and inventories, while net export remained in negative territory.

In line with these developments, the harmonized unemployment rate continued to decrease by 0.6pp yoy reaching a record low level at 4.0% (eop) as of 2022. This trend reflects not only the progress of the economy, but also the highly negative demographic processes in the country. Against this backdrop, the average monthly wage expectedly continued to grow as it increased by 16.2% yoy, from BGN 1 676 at the end-2021 to BGN 1 947 in December 2022.

Inflation turned out to be the central economic problem of year 2022. While 2021 ended with harmonized December-to-December (yoy) inflation of 6.6% (which was also disturbing), at the end of 2022 it reached 14.3% yoy. From the beginning of 2021, inflation had been stepping up monotonically and reached its peak in September 2022 (15.6% yoy), after that it began to decline moderately. At the end of the year, foods (26.0% yoy), housing and energy (17.8% yoy), restaurants and hotels (16.8% yoy) registered the highest price increases.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.1. THE WORLD ECONOMY AND GEOPOLITICAL CHALLENGES (CONTINUED)

Budget costs had increased due to the consequences of the COVID 19 pandemic while the subsequent energy crisis, the war in Ukraine and the inflation pushed them even higher. A cash deficit on the consolidated fiscal program at BGN 1.4 bn (0.8% of the estimated GDP) was an excellent result in the environment of political instability in 2022. A lot of credit for this result had the surplus of European funds item at BGN 3.7 bn amid a deficit on the side of the national budget at BGN 5.1 bn. For its coverage a new government debt was issued during the year, almost equally in the foreign and domestic markets. Thus, the public debt reached BGN 37.1 bn (23.0% of GDP) in 2022, or by BGN 4.6 bn more than its level a year ago (BGN 32.5 bn and 23.9% of GDP), remaining once again one of the lowest in the EU. Considering the stable fiscal environment, the credit agencies did not change the country's rating and outlook.

The current account in the balance of payments remained negative and insignificant in size (-0.3% of the estimated GDP) in 2022, similar to that a year ago (-0.5% of GDP). In turn, foreign direct investments in the country registered an increase to EUR 2.2 bn amid a volume of EUR 1.2 bn in 2021.

Similarly, to the economy as a whole, the turbulences in the 2022 environment did not negatively affect the results of the banking sector, which turned out strongly positive. Once again, a high credit activity and an upsurge in deposits were achieved, while the good level of capitalization and high liquidity of the sector maintained. Banks continued to carry out their activities in an inflationary environment, making additional efforts to enhance their efficiency through digitization of processes and operations. The total number of institutions remained unchanged in the year: 25 banks, out of which 18 licensed banks and 7 branches of foreign banks.

The assets of the sector continued to grow mainly due to loans' rise. So, the total balance sheet figure of the industry reached BGN 155.5 bn as of December, or by BGN 20.0 bn (14.8% yoy) more than at the end-2021. The total volume of loans amounted to BGN 86.1 bn, which means an increase by 13.1% yoy. This growth decomposed by segments was due to an rise in loans to individuals (consumer and mortgage) by BGN 4.5 bn (15.2% yoy) and a surge in corporate loans by BGN 5.7 bn (12.3% yoy). The maintenance of low interest rates combined with rising inflation stimulated credit growth during the year.

On the other hand, saving preferences were fuelled by the significant uncertainty. This led to a rise in deposits, which at the year's end reported an increase by BGN 16.8 bn (15.4% yoy) to BGN 126.2 bn. Out of the segments, deposits from households went up by BGN 6.2 bn (9.1% yoy) while those from corporate clients soared by BGN 10.7 bn (25.9% yoy).

Equity of the banking system also enlarged by BGN 0.7 bn (4.1% yoy) reaching BGN 17.3 bn at the end of the year. The net profit enhanced to BGN 2.1 bn, or by BGN 0.7 bn, which represents a huge upsurge by 46.8% yoy. The return on assets (ROA) and return on equity (ROE) indicators accordingly improved rising to 1.3% (+0.3pp) and 12.0% (+3.5pp), respectively. Banks achieved a high total capital adequacy of 20.9% as of December 2022 (-1.7pp compared to the end of 2021).

The non-performing exposures (NPE) in the total loan portfolio declined by 1.4pp yoy 2021 to 4.6%, an indicator of the healthy growth of the banking system and its business in 2022.

Consolidation process in the sector continued, since KBC Group received an approval for the purchase of Raiffeisen Bank (Bulgaria) EAD and the deal finalized.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.2. COMPETITION AND TECHNOLOGICAL CHANGE

For the last three years, the external environment has been subject to a dynamic and continuous change that have created a number of difficulties and challenges and stress-tested the operating models and the way the bigger companies (incl. the banks) work in Bulgaria.

The efforts of the banks, who have managed to react to changes in the external environment in a quick manner and proposed flexible solutions, without compromising the security of their operations, have been lavishly rewarded. The agile and the quick realization of the technological changes and innovative solutions remain critical for the banks in their goals to:

- generate sustainable returns for their shareholders;
- add value and position themselves as a preferred financial partner for their customers, and
- develop an attractive employer brand and competitive conditions for their employees.

The expected merger of UBB and KBC Bank Bulgaria will spring new opportunities for the United bank in its strive to be a leader in all business segments. The optimization of the way of work, based on the ‘best of both worlds’ concept will accelerate the technological development of UBB in the direction, in which the customers see their future. The increase of the customer base will create a critical mass for the realization of greater benefits from the implementation of innovative solitons and add more value in customer interaction.

‘KATE’ – the digital assistant, developed and launched by UBB, is such innovation that aims to empower the Bank in responding to the change in customer needs and their desire to interact in digital environment. The digitalization of the product portfolio, together with the data analytics, AI and chat bots are the major technologies utilized by KATE. These technologies catalyze the continuous upgrade of KATE’s algorithm and the development of new cases and scenarios of interaction with customers – i.e. KATE has the ability for a proactive client advisory as well as to answer to questions, related to our products and services.

In a similar manner, the banks could advise you, in the near future, on the selection of an alternative (cheaper) vendor of utility services, as they already have an access to their customers’ bills to suppliers of electricity, water, TV, etc. These are the so-called ‘**beyond banking services**. UBB will target the maximum utilization of these business resources not only as an additional revenue source, but also as a way to become more effective and lower the costs. Both targets are achievable through process automation and AI utilization. This will lead to the development of new business models – those of “beyond banking”. UBB will continue to offer important for the customer services, based on the mobile banking applications, as a minimum for a modern bank.

The development of **ecosystems with the fintech companies** is one of the models, that will be of a primary focus for the Banks in them strive to lower the time to market of new / innovative solutions and to sustain their competitive position on the market. The **Banks – Fintech partnership**, where the banks shop solutions from the fintech companies, is an important step for the future development of the Bulgarian financial sector. We are privileged to have a big customer base and the necessary banks licenses, while the fintech companies have the right solutions. This is a win-win partnership.

The Big Tech companies are also looking at providing universal (end-to-end) services to their customers, as part of their business model. These companies are active in the payments’ phase of the process, but at the same time do not want to be banks, mainly because of the financial sector regulations, that will limit their development appetite in other business segments. This is a clear opportunity for a partnership between the banks and the big-tech companies, when it comes to the use of fintech solutions.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.2. COMPETITION AND TECHNOLOGICAL CHANGE (CONTINUED)

The last years of constantly changing external environment have created the notion of the "New reality". This is an environment of increasing digitalization and innovation, not only among our competitors, but also among our customers and partners. This is an environment of change, which has to be cleverly planned and managed. The necessity for major investments in technological development and in building internal capacity, which has to power this development, will be critical for the future growth of the Bulgarian bank sector.

2.3. REGULATION

2.3.1. OVERVIEW OF LEGAL FRAMEWORK

The absence of a permanent National Assembly during the year, given the resignation of the government and the impossibility of establishing a ruling majority after the parliamentary elections, determined the lack of intensive legislative changes.

The legislative focus has been on the sub-legislative framework, with new acts and amendments applicable to the activities of credit institutions largely implementing best European practices and transposing European acts.

UBB continues to monitor, on a daily basis, legislative changes and initiatives, using an effective notification mechanism when changes or upcoming developments relevant to the respective banking unit are identified.

The central focus of the Bank is the introduction of the EURO as the official currency in the Republic of Bulgaria from 2024, in accordance with the National Council Decision of 27 October 2022. In this regard, internal expert groups are following up the preparation, the discussions and analyses on the published EURO adoption concept and the forthcoming Law on the introduction of the EURO in the Republic of Bulgaria, as well as the relevant information and communication campaign.

The ESG (Environmental, Social and Governance) policy is embedded in the strategy of the entire KBC Group, including UBB AD. Compliance with it is part of KBC's responsible management to achieve long-term sustainability throughout the economic group. For this reason, the Bank regularly monitors the European and local legal framework in order to incorporate adequate ESG principles in all aspects of its operational activities in a timely and correct manner.

The main legislative developments during the year have been analysed by the Bank and can be summarised as follows.

The changes to the Credit Intuition Act recognise a new type of credit institution – the so called system investment intermediaries as second type of a bank (as per art. 2 (1) (2) of the Credit Institution Act; as well as (ii) the bank license of a traditional credit institution (as per art. 2 (1) (1) of the Credit Institution Act) may include an activity as a provider of collective financing services within the meaning of Regulation (EU) 2020/1503.

The amendments to the Act for the Activity of the Collective Investment Schemes and of Other Undertakings for Collective Investments transpose, in particular, the norms of the European regulation, as, in particular, a new obligation is introduced for the depositary bank of CIFs, NIFs and AIFs, according to which the depositary bank must verify whether the management company has adopted and implemented procedures for conducting liquidity stress tests of the collective investment scheme. Corresponding amendments to Regulation No. 44 of the FSC were also adopted in July 2022. The Bank has entered at the end of 2022, i.e. within the timeframe stipulated in the law, into supplementary agreements with its management company clients to the depository services agreements, which bring the agreements in line with the amendments to the law. The annexes to the depository services contracts come into force after the approvals of the FSC, which has started sending approvals for each specific transaction.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.3. REGULATION (CONTINUED)

2.3.1. OVERVIEW OF LEGAL FRAMEWORK (CONTINUED)

Other amendments to the rules on collective financing further develop the legal framework for markets in financial instruments, credit institutions, collective investment schemes and other collective investment undertakings as well as special purpose vehicles and securitisation vehicles.

The amendments to the Law on Payment Services and Payment Systems, in addition to regulating the rules for the conversion of payment institutions and electronic money companies, empower the BNB to carry out the assessment under Article 23b(5)(a) of Regulation (EU) 2016/1011 in relation to interest rate benchmarks, and regulate the immediate settlement of transfer orders in BGN based on European Payments Council SEPA schemes.

Corresponding changes have been made to Ordinance No. 16 of the BNB of 29 March 2018 for issuing licenses and approvals, for entry in the register under Art. 19 of the Law on Payment Services and Payment Systems and on the Requirements for the Activity of Payment System Operators with Settlement Finality.

The amendments to Ordinance amending and supplementing Ordinance No. 3 of the BNB of April 18, 2018 on the terms and conditions for opening payment accounts, for the execution of payment operations and for the use of payment instruments now allow for authorisations for signing a framework contract for the provision of payment services to be signed by means of a qualified electronic signature.

With a view to the Bank's cooperation in European funding, the relevant internal units are familiar with the principles and measures provided for in the amended Law on the Management of Funds from the European Structural and Investment Funds, which introduces the measures for the implementation of Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021.

The amendments to the Code of Civil Procedure provide for the Ministry of Justice to establish and maintain an information system on attachments of movable property subject to registration. The Bank is monitoring the construction and access process as the data from this system will help assess its security portfolio.

The amendments to the Consumer Protection Act transpose the European legislation by introducing the concepts of "widespread infringement" and "widespread infringement with a union dimension", the breach of which is sanctioned. Other changes relate to the regulation of distance contracts, limiting unfair commercial practices, for which a new model of conduct is also provided.

The new Covered Bonds Act transposes Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 and amended Directives 2009/65/EC and 2014/59/EU (OJ L 328/29 of 18 December 2019, by creating a legal possibility for banks to issue covered - i.e. debt securities issued in accordance with national and European Union law that are secured by assets serving to satisfy investors as preferential creditors. In this way, credit institutions can maintain their liquidity as well as obtain funding from the ECB and other external institutions. The terms and conditions for the issuance of covered bonds are set out in Ordinance № 42 of the BNB dated 21 June 2022 for the terms and conditions for issuance of secured bonds.

The Bank has taken into account the substantial increase in the minimum attorney's fees introduced by the amendments to Ordinance No. 1 of 2004 on the minimum amounts of attorneys' fees.

The Bank routinely takes into account and applies changes in labour legislation, as well as takes into account and complies with the many amendments to secondary banking legislation relevant to its business. The annual amendments address a number of formalities in the banking sector, including but not limited to the settlement of government securities; transparency and reliability requirements for information on the sustainability factors of financial instruments offered; sustainable financing rules; risk management rules for special purpose vehicles; the terms and conditions for the selection of independent appraisers under the Law on Recovery and

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.3. REGULATION (CONTINUED)

2.3.1. OVERVIEW OF LEGAL FRAMEWORK (CONTINUED)

Restructuring of Credit Institutions; the terms and conditions for the determination and payment of a maximum daily amount in the event of suspension of obligations on eligible deposits; the fees for covering the administrative costs of the Bulgarian National Bank arising from the supervision and restructuring functions, the information systems of judicial enforcement, the control of the quality of banknotes and coins in cash, the amended taxes under Ordinance No. 12 of 29 September 2016 for the Register of Bank Accounts and Safe Deposit Boxes, the requirements of Ordinance No 22 of 16 July 2009 on the Central Credit Register for the maintenance of information on the credit indebtedness of customers to investors who have made a loan to a project through a collective financing service provider.

In order to ensure timely preparation and professional awareness, the Bank monitors the development of draft laws and in most cases participates in the discussion of the act with comments and recommendations. In sight during the year were the Bill on Insolvency of Natural Persons; proposed amendments to the Commercial Act related to the commercial insolvency and the financial leasing, the bill on Representative Actions for the Protection of Collective Interests of Consumers, and the draft law amending the Code of Civil Procedure to introduce electronic writ of execution proceedings.

The Bank has also taken note of the recommendations of the European Insurance and Occupational Pensions Authority to insurers and banks, which should ensure that the distributed insurance products offer fair value to consumers and do not prejudice their interests due to conflicts of interest.

Local teams have raised awareness of Minimum Requirement for Own Funds and Eligible Liabilities. The Bank participated in a group level restructuring simulation exercise resulting in share impairment/devaluation.

UBB continues to participate in working groups in sectoral organisations where it analyses draft texts on legislative changes, proposes revisions and makes suggestions. It regularly organises training sessions for the business on legal risks and workshops with the legal department in order to exchange experiences, legal discussions and unify practice in line with the adopted policy of responsible behaviour and risk profile reduction.

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.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.3. REGULATION (CONTINUED)

2.3.2. EU TAXOMY REGULATION (CONTINUED)

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.

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 (further DDA) 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 2023, key performance indicators on taxonomy alignment regarding all environmental objectives shall be disclosed. On 1 January 2023, a number of nuclear and gas activities were added to the list of eligible CCM and CCA activities under the Complementary Climate Delegated Act.

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 DDA. Although the DDA does not specify how to deal with the reporting of a group containing different types of financial undertakings, the European Commission has indicated that if the parent company is a credit institution, all prudentially consolidated entities must be included in the relevant credit institution’s taxonomy reporting.

In this second reporting, data availability remains 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. Our (corporate) counterparties which are subject to the NFRD have now disclosed this information for the first time, as their disclosure obligation entered into force simultaneously with the disclosure obligation for financial undertakings. UBB is currently processing and incorporating this client information in the UBB reporting, which results in an increase in the mandatory eligibility percentages. Since not all counterparties are subject to the NFRD and not all client information is available, we choose (as suggested by the Platform on Sustainable Finance) to also disclose voluntary eligibility percentages, which, for the corporate counterparties, are based on approximations and information available within the Bank. Where appropriate, these approximations are transparently explained. Data availability and data quality are continuously monitored and actions are formulated to make progress on this level.

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.

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.3. REGULATION (CONTINUED)

2.3.2 EU TAXOMY REGULATION (CONTINUED)

UBB as a credit institution

In this section all assets are considered from the credit institutions in the Group, i.e. those entities as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council (prudential requirements for credit institutions). As defined in Annex V, 1.1.1 of the Disclosure Delegated Act (Commission Delegated Regulation 2021/2178), disclosures are to be based on the scope of KBC Group's prudential consolidation. Remark that this scope is slightly different from the accounting scope (as presented in note 6.5 of the Consolidated Financial Statements).

The mandatory eligibility percentage for the assets of our credit institutions is 15.56% on individual base and 15.48% on consolidated base. The 2022 figure includes mortgage loans and car loans to households, as well as the eligible exposure to financial and non-financial counterparties (subject to the NFRD), based on available client information. In the 2021 reporting period, the available information was limited to mortgage loans.

The voluntary eligibility percentage for the assets of our credit institutions is 32.10 % on individual base and 32.26 % on consolidated base. Following assumptions were made to calculate these voluntary percentages:

- The following counterparties are taken into account: financial corporations, non-financial corporations (subject and not subject to the NFRD), households and local governments.
- In order to define whether an exposure is taxonomy-eligible or not, we first look at the available client information. In case of insufficient client information, we define eligibility based on the main NACE code of the counterparty. If that NACE code is described in the Climate Delegated Act or in the Complementary 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. The voluntary eligibility percentages show a strong increase compared to their year-earlier figure, owing to improved data quality and availability.
- In order to define whether a counterparty is subject to NFRD disclosure obligations or not, we look at criteria as defined in the NFRD: number of FTEs, balance sheet total and turnover of our counterparty.

SEPARATE					As of 31.12.2022
					Mandatory and voluntary EU taxonomy reporting
Activities as credit institution	Total (in thousand BGN)	% of total assets	Taxonomy eligible - Mandatory reporting (in %)	Taxonomy not eligible - Mandatory reporting (in %)	Taxonomy eligible - Voluntary reporting (in %)
Assets covered in Taxonomy (numerator and denominator)	6 906 683	39.00%	31.39%	68.72%	33.53%
Non-financial corporations not subject to NFRD disclosure obligations	4 413 591	24.93%			34.04%
Derivatives	5 351	0.03%			
On demand interbank loans	130 142	0.73%			
Other assets	437 160	2.47%			
Assets covered in Taxonomy (only denominator)	4 986 244	28.16%			
Total covered assets in Taxonomy	11 892 927	67.16%	18.23%	39.92%	32.10%
Sovereigns and central banks' exposure	5 800 955	32.76%			
Trading book	13 315	0.08%			
Total assets not covered in Taxonomy	5 814 270	32.84%			
Total assets	17 707 197	100.00%	12.24%	26.80%	21.56%

2. THE ENVIRONMENT WE OPERATE (CONTINUED)

2.3. REGULATION (CONTINUED)

2.3.1. EU TAXOMY REGULATION (CONTINUED)

CONSOLIDATED					As of 31.12.2022
					Mandatory and voluntary EU taxonomy reporting
Activities as credit institution	**Total (in thousand BGN)**	**% of total assets**	**Taxonomy eligible - Mandatory reporting (in %)**	**Taxonomy not eligible - Mandatory reporting (in %)**	**Taxonomy eligible - Voluntary reporting (in %)**
Assets covered in Taxonomy (numerator and denominator)	6 876 311	38.58%	31.64%	68.47%	33.9%
Non-financial corporations not subject to NFRD disclosure obligations	4 561 927	25.59%			33.80%
Derivatives	5 351	0.03%			
On demand interbank loans	130 142	0.73%			
Other assets	437 274	2.45%			
Assets covered in Taxonomy (only denominator)	5 134 694	28.80%			
Total covered assets in Taxonomy	12 011 005	67.38%	18.11%	39.20%	32.26%
Sovereigns and central banks exposure	5 800 955	32.55%			
Trading book	13 315	0.07%			
Total assets not covered in Taxonomy	5 814 270	32.62%			
Total assets	17 825 275	100.00%	12.20%	26.41%	21.74%

2.4. CYBER RISK/ INFORMATION SECURITY

CYBER RISK AND INFORMATION SECURITY are one of the key components to provide quality, safe and cyber resilient services to our clients.

In current geopolitical situation there are a lot of challenges, especially when the clients and key services are exposed to Internet with different technologies used in a complex infrastructure. The biggest threats are the organized hackers' groups, combining significant knowledge and motivation. Most of them are also with a solid financial support and backed up by nation states. In situations like this, our information security team strive to have very flexible organization, motivated and knowledgeable members and full support from the management board and all stakeholders.

The main focus is to protect our clients from malicious activities, using the combination of modern technologies and focus on awareness and continuous improvement. On the other hand, all assets and processes that support client services are regularly evaluated, challenged and improved against existing and new threats. Using a risk-based approach, we are focusing our efforts with maximum efficiency and risk mitigation. Security operations are also supported by group-wide Competence Centre for Information Risk Management. This approach guarantees the speed, flexibility and resources to manage all types of crisis related to cyber and security incidents.

3. OUR EMPLYEES, CAPITAL NETWORK AND RELATIONSHIPS

2022 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+.

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. Additionally, there was conducted Culture survey in alignment with PEARL values.

The received feedback is most valued and results in the implementation of concrete improving actions on work environment and other HR "hot" topics.

For 2022, UBB held the following CSR initiatives:

- Adding psychological support as part of health insurance
- Online yoga practice
- Stress management sessions
- Onboarding of returning mothers
- Encouraging employees' physical activity via KakSi application

In terms of employer branding in 2022, efforts were focused both internally through a number of initiatives aimed at increasing engagement and promoting UBB as an employer of choice to external audiences, and externally to continue contacts with leading universities to build partnerships and opportunities for potential internship programs. UBB 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, Career exhibitions at Sofia University "St. Kliment Ohridski" and Technical University of Sofia, Career Show Tech, as well as the Junior achievment initiative „Manager for a day "). These initiatives contribute to close interaction with potential trainees and continues to give a better understanding of the new generation and strengthen our position as one of their career choices.

The effective partnership with Sofia University "St. Kliment Ohridski" was renewed and resulted in the first two editions of KBC Bulgaria ESG Academy, which were held in the Sprig and Autumn of 2022. A total of 32 UBB employees took part in the two editions of 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 ESG Academy, lasting three months, is to contribute to the goals of the Paris Climate Agreement, as well as to prepare the KBC Group companies in Bulgaria for the forthcoming EU regulations by integrating the principles of sustainable development financing. In connection with the successful completion of the KBC Bulgaria ESG Academy, in December 2022, an opportunity was launched for employees to apply for financial support (sponsorship) to conduct scientific research and defend a doctoral degree on a topic related to sustainable financing. The sponsorship was provided by UBB for three years.

In 2022, 22 young professionals with various profiles successfully completed the internship program of UBB, some of which continued to grow in the company on permanent positions.

In 2022 we continued to provide various learning opportunities, aiming at career development and upgrading the professional expertise of our employees, and after the COVID-19 pandemic, we gradually started to offer physical attendance trainings along with the virtual trainings and the self-study e-modules.

UBB employees participated in technical skills trainings related to Microsoft Excel Advanced, SCRUM, Agile 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, GDPR, Information security, etc.

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

Over 250 sellers from Branch network took part in Sales skills training with three different focuses: Identification of the clients' needs; Provoking client's interest and Closing of deals Another priority topic, held in 2022, was the webinar - Stress Management and Burnout Prevention.

The Mentoring Program to support the effective onboarding of the new "Branch Network" and SME Distribution Directorate continued successfully in 2023.Together with the active support of the Human Resources Management Directorate, all newly appointed colleagues from BN and SME Distribution were 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.

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. a training on Personal and Team Motivation for 70 Branch Managers. We also continued with two new editions of the successful program KBC Bulgaria Academy for Managers, specially developed for colleagues who take on roles related to people management for the first time. The second edition of the program, held in October 2022, was held with employees both from UBB and KBC Bank Bulgaria, already managers with experience, but who were supposed to be promoted to higher positions with much bigger teams.

Last but not least, in 2022 we enriched our e-learning library with new modules on hot topics - from company's strategic priorities such as Kate Academy etc.

Employees split per type of employment as of 31.12.2022:

Full-time	**99.8%**
Part-time	0.2%

Remunerations in UBB are determined, based on work on an 8-hour business day for a 5-day working week. the Bank continued in 2022 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, supplementary pension insurance and different social payments for personal events (marriage, childbirth etc.).

For the second consecutive year, the KBC Group Executive committee granted to the employees a special reward payment, as recognition for their exceptional efforts. 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, resulted in signing of a New Collective Labor Agreement in 2022.

4. THE CLIENT – THE CENTER OF OUR BUSINESS CULTURE

4.1. CORNERSTONES OF OUR STRATEGY

The corporate strategy of UBB is aligned with the KBC Group strategy “Next Level”, seasoned with the local flavor (market and economic specific), reflected in the “Parvi” strategy. Our **“Parvi” (“First”) strategic plan** traces the path for KBC Group to tip the scales in financial services in Bulgaria, and to emerge as the reference in bank-insurance in all our business segments.

We will continue to invest in:

- Excellent client experience with accelerated digitalization of products and services, high-value advisory – e.g. digital with human touch

- Multi-faceted financial performance, encompassing banking, insurance, leasing, pension-insurance products and services, as well as and beyond banking services, under one umbrella and with unified, transparent and effective offering and service

- Lean approach toward all processes and agility in delivering solutions at high pace with sustainable effect

- Sustainability and profitable growth – we continue to work driven by long-term perspective and clear focus within solid risk, capital and liquidity boundaries. We also expand our portfolio and initiatives to address the green economical context, and thus direct our development toward another level of responsibility and progress

- Responsibility towards society and local economy – as part of the Group and local strategy, UBB is committed to acting with clear understanding of the local specifics, combined with global regulations, to achieve the utmost effect of honest and consistent corporate behavior in its everyday activities.

Our additional major focus in the next three years remains on:

- EURO adoption – meet the necessary regulatory and business requirements until January 2024 (unless the official deadline is revised)

- Integration of the two banks – enroll a complex integration program that will ensure smooth migration of people, customers, processes, systems, etc.

- Healthy level of innovation - KATE will grow to maturity level 3 – i.e. in retail. In STP we focus on increasing the usage of existing digital processes, but also invest in STP mortgage lending process. We enhance our data infrastructure and capabilities.

4.2. OUR FOCUS IS ON SUSTAINABLE AND PROFITABLE GROWTH

We strive to build sustainable relationships with individuals, small and medium-sized enterprises and large corporate customers in Bulgaria. Responding to customer needs is very important to us. This means that we know and understand our customers better, effectively identify their needs and respond quickly and adequately, and also that we offer them products and services, tailored to their specific needs. We focus our efforts on the sustainable development of the various communities, in which we work.
We encourage our employees to be responsive, responsible and results-oriented, while monitoring the process of permeating this culture in the behavior of our employees and in their daily tasks. In addition to our culture and values, we differentiate ourselves from our competitors in several specific ways.

KBC Group's corporate strategy is based on four pillars:

- We put our customers at the core of everything we do;
- We aim at offering unique banking and insurance services
- We focus on the Group’s long-term development and on the achievement of sustainable and profitable growth
- We take our responsibility to society and local economies quite seriously

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

4.2. OUR FOCUS IS ON SUSTAINABLE AND PROFITABLE GROWTH (CONTINUED)

The implementation of KBC Group's Corporate Sustainability Strategy is governed by the Internal Sustainability Board (ISB), chaired by the Group CEO and involving the Group CFO, senior managers from all business units and core countries and the General Manager of KBC's Corporate Sustainability Committee.

Mr. Peter Roebben - Country Manager of KBC Group for Bulgaria is member of the Internal Sustainability Board (ISB) and bears the overall responsibility for the sustainability activities at KBC Group Bulgaria. The Internal Sustainability Board (ISB) of KBC reports to the Group Executive Committee and the latter - to the Group Board of Directors. KBC Group Bulgaria Corporate Sustainability Committee, chaired by Mr. Roebben, governs the corporate sustainability activities at local level.

4.3.OUR ROLE IN SOCIETY: MEETING EXPECTATIONS

As a financial institution that is responsible for environmental issues, contributes to reducing the adverse effects of human activity on the planet's climate and makes efforts to counteract risks and maximize prevention, UBB has implemented various activities aimed at reducing our negative imprint on the environment.
We can be truly resilient, should we manage to 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

The generation of sustainable and profitable growth goes hand in hand with the contribution 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 commercial 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 deliberately chosen focus areas of KBC. 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 do have an impact. In order to limit our direct and indirect impact on global warming, there is a program, initiated at Group level for reducing our environmental footprint.

We enhance our positive impact on society

Corporate sustainability and responsibility in recent years is not an objective per se, nor just a fashion trend – it is a way of doing business. It is only by rendering sustainability an integral part of our overall corporate strategy that we can trigger a positive change. In this ever-changing world, in order to truly position ourselves as a factor in social life and meet the new needs, expectations and desires of all our stakeholders, we have to act purposefully, while caring for and supporting society.

Sustainability does not only mean philanthropy and support for 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. We, however, want to go farther, so we have defined four main domains, on which to focus our attention and to develop meaningful projects.

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

4.3. OUR ROLE IN SOCIETY: MEETING EXPECTATIONS (CONTINUED)

Key element of our upgraded approach to sustainability is the fact that we want to offer core business solutions, related to lending, investing, insurance and consulting that contribute positively to addressing these societal challenges.

For a consecutive year our efforts are being focused on four main lines:

- Financial literacy
- Promoting entrepreneurship
- Health
- Environment

Promoting Financial literacy

This is a topic of paramount importance to our Group. Being experts in the financial and insurance domain, we try to raise public awareness of financial education issues by implementing various initiatives, aimed at different social groups.

We have created and further develop the *All the Money* game. It is a unique UBB project, enabling children and youth aged 8 to 18 to acquire new financial knowledge and skills in order to make informed decisions about their personal finance. The game encourages analytical thinking and good practices in investing, insurance, banking, saving, resource optimization and workplace relationships in real-world situations. The game was created as a board game and was originally presented to children, placed in residential care centers.

In 2021 and 2022, we managed to digitize the game, by initially creating an online platform with an interesting and funny interface. In addition to the main goal we pursue - financial literacy - we strive to connect *All the Money* game with its main target audience - young people and teenagers, for whom financial language is often incomprehensible.

As a member of the UN Global Compact for another year, we joined the *I am proud of my parents' work* initiative - a project, in which companies open doors for the children of their employees to familiarize them with the work environment of their parents and the variety of occupations in a company. Along with professions, companies have the opportunity to show the "money trail", the products they create and the professional skills that drive success. The project aims to showcase that work is a need and a value and that every profession is indispensable for society and its exercising requires the acquisition of a certain education and qualification. The initiative's 10th edition returned in a face-to-face format after a 2-year pause in which it was held online only.

Promoting Healthy lifestyle

Part of the corporate social responsibility policy of KBC Group in Bulgaria is the promotion of healthy lifestyle initiatives.

In the past 2022, we managed to realize physical attendance at sporting initiatives for UBB and KBC Bank employees that were postponed due to the COVID pandemic, such as: UBB Tennis Tournament and UBB Games. Our colleagues also took part in a number of charity events, such as: a football tournament of the Berbatov Foundation, climbing the *Kopitoto* Peak in memory of Boyan Petrov, Sofia Marathon, crossing the E4 route, etc.

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

4.3. OUR ROLE IN SOCIETY: MEETING EXPECTATIONS (CONTINUED)

The traditional charity Christmas bazaar of KBC Group in Bulgaria has returned with incredible success after a 2-year halt. This year, the bazaar was split into two corners - the first involved well-established Bulgarian producers, while the second corner was entirely charitable. There were items, offered by United for Charity Association, such of Mastercard, or items made by our colleagues.

The collected funds will be allocated for our charitable causes of UBB’s *United for Charity* Association;

For another year, UBB also supported the *Bulgarian Christmas* - the initiative, which aims to help resolve problems of importance to society, concerning the health of children and to support their treatment.

The twentieth edition of the charity initiative under the patronage of the Republic of Bulgaria’s President was dedicated to children with rare genetic diseases. For 20 years now, the joint efforts of thousands of virtuous Bulgarians, who make the *Bulgarian Christmas* cause possible, have affirmed the traditions of giving in this country and have won public support for charity. Thanks to the active support of donors and partners, the initiative supports an average of 500 children every year and provides high-tech medical equipment for health care establishments throughout the country.

Promoting entrepreneurship

KBC Group companies consider the promotion of entrepreneurship as their mission, as we believe that it is the real driving force behind the growth and development of economies. Entrepreneurship is now a core part of KBC Group's strategy.

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, International Finance Corporation and the Bulgarian Export Insurance Agency, UBB continues to support the development of small and medium-sized enterprises in Bulgaria. Loans were successfully offered under the COSME, COSME COVID-19, COSME Digitalization Pilot, InnovFin, JEREMIE TF, FMFIB 1, FMFIB 2, EGF, NGF-7 and other programmes. UBB is the first bank in Bulgaria to sign an agreement under InvestEU, which programme will support projects worth nearly BGN 300 million.

UBB representatives participated in more than 13 events with over 1 500 entrepreneurs, to whom they presented the new entrepreneurship development opportunities under European programmes. The Bank had its own member in the jury at the National Final of the *Entrepreneurship World Cup 2022*, organized by the Global Entrepreneurship Network. UBB also supported the National Competition for *Best Youth Startup 2022*, organized by Sofia University *St. Kliment Ohridski* and the Fund of Funds. In parallel with all these initiatives, UBB established a practice of sending information to young entrepreneurs about EU funding opportunities.

In 2022, the following entrepreneurship projects were implemented: *Program for Freelancers* and *Support to AGRO Entrepreneurship*.

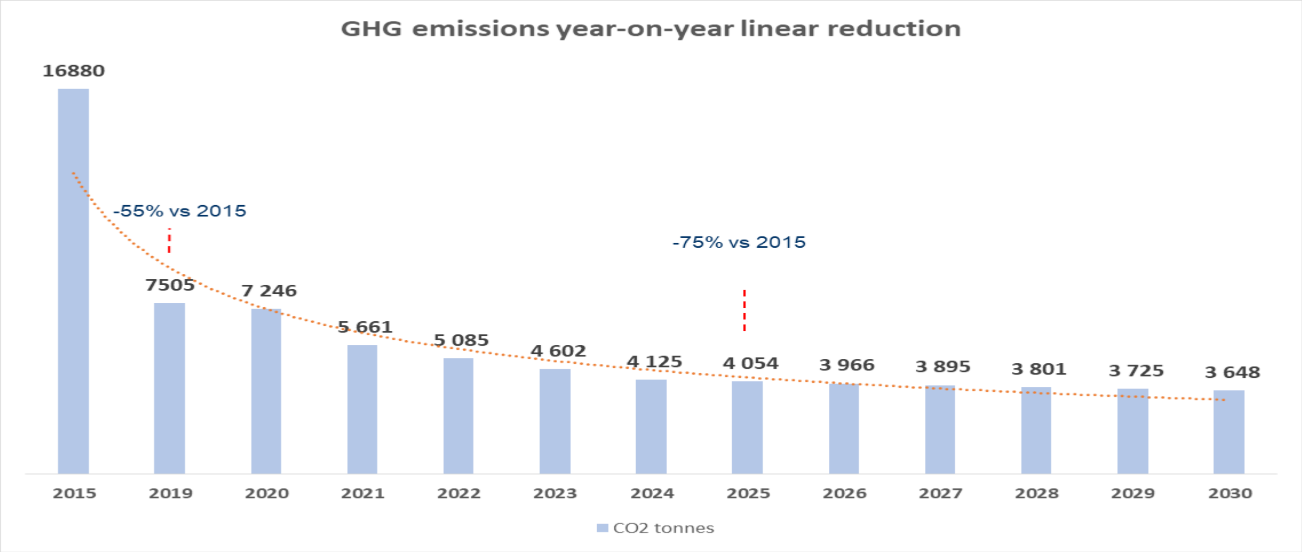
Last but not least, we continued to develop our partnership with Bulgarian municipalities along the following lines: finding new opportunities for investments in the respective region; supporting the development potential of local businesses; participation in initiatives, relevant to the local community.

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

4.3. OUR ROLE IN SOCIETY: MEETING EXPECTATIONS (CONTINUED)

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.



For 2022, the total amount of greenhouse gas emissions of all entities owned by KBC Group in Bulgaria is 4 906 tons. This figure also includes the carbon emissions of the newly acquired company (KBC Bank Bulgaria, KBC Leasing Bulgaria and KBC Insurance Broker). Without the acquired companies, the total amount of greenhouse gas emissions is 3 630 tons, keeping flat our values compared to 2021. This is a very good result considering the cancellation of measures due to COVID-19 and the increase in business trips in the country and abroad.

KBC Bulgaria Group continues to focus its reduction efforts on the most impacting activities, – these are purchased electricity and travel:

Electricity:

Gradual increase of green electricity share to 80% by 2025 and to 100% by 2030. For 2022, the total share of purchased green energy for the needs of KBC Bulgaria group was 72% (as the purchased electricity for UBB, DZI and KBC Branch Bulgarian was 100% green energy).

Solar panel installations — Our second solar plant in the city of Varna was put into operation in April 2022. In 8 months, it produced 33 MW of electricity, which guarantees our forecasts of 39MW/h annual electricity production and a reduction of CO_2 by 19 tons annually.

Transportation:

Gradual replacement of own car fleet by hybrid/electric cars - Currently, 5 electric cars have been delivered and are in use for the needs of UBB and DZI. A total of 37 hybrids and electric cars are expected to be delivered in 2023.

Reduction of business trips in the country and abroad.

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

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. 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 2022, 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 to be assessed the degree of staff awareness in regard to the importance of the topic, 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.

4.5. FOCUS ON CLIMATE CHANGE

In 2022 UBB extend and further continue its efforts in the managing and oversee climate-related risks in the Group’s portfolio in Bulgaria following the KBC Group strategy and Program. The Program for Sustainable Finance was working on the following tracks: data collection and white papers, reporting, green products and green validationp, as it was followed by the Committee of Sustainable Finance (GREEN-COM), subcommittee of CSR Committee of KBC Bulgaria. Having respect to the achieved objectives of Program at the end of this year, it was decided the Program to be terminated and responsibilities to be embedded in the ongoing activity within the Products and Business Development for SME and Corporate Banking Directorate with General manager in charge of sustainability strategy of the Bank.

During the last year the focus was predominantly put on climate risks due to the EBA guidelines as well as KBC signing of the UN’s Collective Commitment to Climate Action (CCCA) in 2019. Following that strategic direction, the Program for Sustainable financing fulfilled some main actions related to 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:

- The White Papers approved in 2021 were updated, as policy documents presenting key trends related to sustainability in the sectors and segments mostly affected by climate change, with actions which could help achieving the targets identified herein after.
- Following CCCA UBB set up mid-term (up to 2030) and long-term (to 2050) targets for substantial decreasing of the financed emissions in our credit portfolio. The methodology applied requires science-based scenarios for decarbonization expressed in absolute financed emissions and financed intensity (tCO_2/M EUR) and carbon intensity for the specific sector (e.g. TCO_2e/ MWh or tCO_2e/sq. m.).
- Thus, UBB undertook solid exercise in gathering of data to calculate its baseline position (as of end of 2021) and put specific KPIs for decarbonization of the priority sectors: Energy, Real estates, Transport and Agriculture. We use the PCAF-methodology for carbon accounting of the collected data and to calculate our (financed) emissions and KPI’s as part of group CCCA emission targets status report.
- The targets are already disclosed in the KBC group Climate report in September 2022 and will be tracked annually. The results of the financed emissions, also known as PCAF reporting, are part of the Group Sustainability report.

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

4.5. FOCUS ON CLIMATE CHANGE (CONTINUED)

In addition, for a subsequent year UBB follows-up and discloses its progress on the indicators clearly set up for comparison and tracking – KPIs as follows:

1. Share of the financing of investments in renewable energy suppliers:
- for 2022 the target of 65% of our credit exposure to energy assets was well surpassed – reaching more than 90%, which was also in result of the high interest and demand of alternative energy supply in that period. Reflecting on the progress achieved and the increasing ambition levels towards the transition to low carbon energy system, the pledge was further increased to 75%.
2. No new financing of energy generation of coal. UBB also put clear limitations for the energy generation from fossil fuels in our energy portfolio
3. Targets for distribution of Responsible Investing funds, managed by KBC Asset Management, which UBB offer with investment advice and, since September 2022, with respect of sustainability preferences of the clients – above 50 % up to 2030г.
4. In the 3-years budget cycle (APC), there are new targets for selling of products related to energy-efficient real estates, not only in mortgage market, but also in project financing.

➢ **Risk management**

• The policy in relation with the integration of the measurement of the environmental, social or government risk (ESG risks assessment) in the regular risk measurement activity in credit transactions, adopted in 2021, was further endorsed as part of the credit approval process, and in particular for borrowers active in a sector where the activity is exposed to high environmental or social risks, as per the KBC Guidelines. The current process of review of existing exposures and approval of new, the focus is reinforced to the completeness and correctness of the ESG assessments, as it is envisaged the phase-in expansion to other borrowers.
• Our policies and standards are regularly updated and followed in the regular activity of credit risk assessment and monitoring, including Credit Risk Standards on Sustainable and Responsible Lending, Standards for Credit Risk in granting loans to Corporate and SME clients and guidelines for performing ESG assessment in accordance with the Guidelines for ESG assessment adopted by KBC Group.

➢ **Customer engagement**

• The bank continues its active role in customer engagement process, as we aim to approach customer proactively and to clearly express 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 and to reach the aim scheduled for this year: to reach all corporate clients with large exposures and the biggest companies with client dialog on the risks and possibilities. That was accomplished as of the end of the year successfully, as we are planning to gradually extend it to most clients.
• In the end of 2022, UBB managed to launch pilot project of carbon footprint calculator, developed by KBC for our corporate clients. We are aiming to provide opportunity to clients who still have not calculated their carbon emissions, to do it for free as the calculation include separate figures for scope 1, scope 2 and partially for scope 3 in CO2 equivalents emission. The project will be fully accomplished in 2023 as part of our efforts in the customer engagement.

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. However, it is worth noted that a large part still need assistance as they do not have sustainability strategy, nor they calculate their carbon footprint.

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

4.5. FOCUS ON CLIMATE CHANGE (CONTINUED)

➢ Green product development

In 2022 within the Program for sustainable finance, the following products and services were initiated and coordinated until their successful start and which put UBB in strong position of trustful partner of the customers in their transition to sustainable business model:

✓ Since beginning of the year, a new investment loan for photovoltaic for Corporate and SME companies went go-live with special conditions for corporate clients – first for Large Corporate and SME, and later also for small business. The most valuable part of the offer was the combination with specialized advisory service with established partnership program with selected trustful partners.
✓ Mortgage loan for energy efficient homes with energy consumption according to energy performance certificate (EPC) category A and B up to 150 KWh/ annually. The requirement for the application of that certificate is needed to be matched with increasing the awareness of the clients in that important document. For that reason, specialized brochure was disseminated within the branch network.
✓ Carbon footprint calculator for Agriculture
- In cooperation with the Institute of Agricultural Economy, UBB created user-friendly interface for GHG calculator for clients and non-client's agricultural producers accessible on the internet site of the Bank. The calculator covers 28 agro sub-sectors. Based on the information entered in the GHG Agri Calculator from the customers, a final greenhouse footprint calculation will be available from the respective contact person employees.
- In addition to that, and in parallel, we started providing advisory services through external partners in case the client needed further advice how to decrease his emissions and to discuss options for more sustainable practices.
- The main aim is to trigger interest of the agriculture producer to find more about their performance, and also to help us collect the necessary data.
✓ Sustainability advisory hub

In the end of the year we also launched partnership program in 5 main areas, some of them mentioned already above: Financial instruments and EU grant schemes; PV and energy efficiency; Sustainable agriculture; Real estates consultancy; ESG strategy and transition plans. The advisory hub should be elaborated and roll out more next year as main expertise support for our clients.

4.6. MEASURES

Complaints management

Process of receiving and handling complaints and providing legal protection against human rights violations. Every complaint received at UBB is registered and sent for verification, analysis and opinion to the relevant competent unit. All customer reports related to personal data are registered and directed to the Personal Data Protection Unit in the Retail Banking and Digital Sales Directorate. All complaints related to unauthorized transactions are directed to the Directorate of Card Business and Card Center and support of 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 relevant directorate, and in the case of unauthorized transactions - to the Dispute Resolution Commission, under Art. 22 of the Rules for resolving customer complaints of UBB.

The rules for resolving customer complaints of UBB represent a universally accepted basis for the collective participation of all competent units for more effective resolution of conflicts and their prevention. The total number of complaints received in 2022 in UBB is 6,429 (2021: 5,347), which is 1,082 cases or nearly 17% growth compared to the previous year. The main reason is the increased number of complaints about disputed card transactions, amounts not received from UBB ATMs and technical problems with the bank's cards.

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

4.6. MEASURES (CONTINUED)

Anti –corruption Program

Criteria used to assess the risk of corruption are provided for in UBB's 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 ex-territorial effect) introduced in 2011 and implemented with 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:

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 2022 is as follows:
- Trainings for new employees on internal rules on ethics:
○ Number of employees invited at training sessions – 250; number of employees who attended the trainings, including testing – 209
- Training for whole bank staff on ethics and fraud risk management:
○ Number of employees invited at training sessions – 2 513; number of employees who attended the trainings, including testing – 2 456
- Training for whole bank staff on internal procedures, prohibiting provision of unacceptable services and assistance:
○ Number of employees invited – 2 549; number of employees who passed the test – 2 353
None was dismissed or was at suit for corruption in 2022.
• The Bank has developed a 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)

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

4.6.MEASURES (CONTINUED)

Anti –corruption Program (continued)

Risk assessment (continued)

Key internal risks: (continued)

- Policy on gifts, entertainment, donation and sponsorship
- Whistle-blowing Rules (updated in 2022)
- Rules for prevention of money laundering/financing of terrorism (updated in 2022)
- Internal rules for inventory and non-remuneration of management mandates executed in other companies on nomination of KBC.

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

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

Framework

We set the bar high aiming to be the bank that puts its clients at the center of everything we do and thus 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.

4.8. OUR 'THREE LINES OF DEFENCE' MODEL

The business operations' side is responsible for managing its risks. As independent control functions UBB Risk Management and Compliance as well as – for certain matters – Finance, Legal, Data Quality Management and Information Risk Management, 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.

4.9. SECTOR – SPECIFIC RISKS

Credit risk

Credit Risk is defined as 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.

It needs to be mentioned that credit risk is also subject to concentration risk. Concentration risk refers to all significant interrelated exposures which, in cases of distress in a particular market, industry, country, may negatively impact the financial stability of an institution.

The three lines of defense approach is strictly applied in Credit Risk management. First line of defense is responsibility of the "business" (encompassing both the commercial network and the credit function). To that extent UBB has procedures, processes, applications in place to assess the risks before and after accepting individual credit exposures.

Risk Function, on Group as well as on Local level, acts as the second line of defense, responsible for monitoring and measuring credit risk on portfolio level, as well as developing frameworks related to credit risk.
Internal Audit acts as the third line of defense by evaluating the implementation of internal policies by the Business and Local Risk Function.

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

4.9. SECTOR – SPECIFIC RISKS (CONTINUED)

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. Solvency risk measurements are regulated in:

- Directive 2013/36/EU which set the general framework for Risk Management in financial institutions
- Regulation EU 575/2013 (Credit Risk Regulation) which sets forth the rules for calculating Capital Adequacy Ratio (CAD) and the minimal requirements;
- Directive (EU) 2014/59 (Bank Recovery and Resolution Directive II) which sets forth the Minimum Requirement for own funds and Eligible Liabilities (MREL) ratio.

Banks registered in the EU must always comply with the regulatory capital thresholds. To monitor compliance, Regulatory authorities have set up a quarterly reporting process.
At bank level Solvency Risk is managed by the Risk Function. Management Board's involvement is insured via regular reporting of CAD and MREL to the Local Risk Management Committee (LRMC).

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

Teodor Marinov	Svetla Georgieva
Executive Director	Executive Director

Date: 10.05.2023

UNITED BULGARIAN BANK AD
UBB
SOFIA

UBB
Part of KBC Group

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Interest income		308 331	267 972	310 922	269 236
Interest expenses		(21 020)	(13 150)	(21 418)	(13 150)
Net interest income	4	**287 311**	**254 822**	**289 504**	**256 086**
Fee and commission income		186 373	161 847	190 148	166 704
Fee and commission expenses		(33 584)	(24 385)	(34 180)	(24 967)
Net fee and commission income	5	**152 789**	**137 462**	**155 968**	**141 737**
Dividend income		3 772	3 120	1 055	518
Net result from financial instruments at fair value through profit or loss	6	279	644	279	644
Net result from hedging derivatives	17	(109)	(115)	(109)	(115)
Net Result from derecognition of investments in subsidiaries		1 204	-	2 592	-
Net other income	7	3 362	4 366	4 963	5 981
Total income		**448 608**	**400 299**	**454 252**	**404 851**
Operating expenses	8	**(231 734)**	**(212 798)**	**(234 831)**	**(216 293)**
Staff expenses		(109 753)	(100 572)	(112 154)	(103 344)
General administrative expenses		(96 966)	(86 368)	(97 603)	(87 005)
Depreciation and amortization expenses		(25 015)	(25 858)	(25 074)	(25 944)
Impairment expenses	9	**(48 668)**	**2 714**	**(50 292)**	**2 589**
On financial assets at amortized cost and at fair value through OCI		(45 343)	451	(46 253)	326
On off-balance sheet commitment		(275)	4 438	(275)	4 438
On non-financial assets		(3 050)	(2 175)	(3 764)	(2 175)
Share in results of associated companies		-	-	467	270
PROFIT BEFORE TAX		**168 206**	**190 215**	**169 596**	**191 417**
Income tax expense	10	(16 704)	(19 101)	(16 976)	(19 472)
PROFIT FOR THE YEAR		**151 502**	**171 114**	**152 620**	**171 945**
UBB equity shareholders		151 502	171 114	152 620	171 945

The accompanying notes from page 78 to page 160 are an integral part of these separate and consolidated financial statements.

These separate and consolidated financial statements have been approved for issue by the Management Board on 10.05.2023 and signed by:

Teodor Marinov
Executive Director

Svetla Georgieva
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
Date: 22-05-2023

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 22-05-2023

UNITED BULGARIAN BANK AD
UBB

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 085
ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
PROFIT FOR THE YEAR	**151 502**	**171 114**	**152 620**	**171 945**
Other comprehensive income/(loss) that may be recycled to profit or loss				
Changes in the fair value of debt instruments at fair value through OCI	(47 941)	(16 217)	(47 941)	(16 217)
Gains reclassified through PL	2 361	88	2 361	88
Other comprehensive loss that may be recycled to profit or loss	**(45 580)**	**(16 129)**	**(45 580)**	**(16 129)**
Other comprehensive income that will not be recycled to profit or loss				
Changes in the fair value of equity instruments at fair value through OCI, net of tax	1 770	603	1 770	603
Actuarial gains, net of tax	2 131	359	2 131	359
Other comprehensive income that will not be reclassified subsequently to profit or loss	**3 901**	**962**	**3 901**	**962**
Other comprehensive loss, net of taxes	**(41 679)**	**(15 167)**	**(41 679)**	**(15 167)**
Total comprehensive income for the year	**109 823**	**155 947**	**110 941**	**156 778**
Attributable to UBB equity shareholders	109 823	155 947	110 941	156 778
Attributable to non-controlling interest	-	-	-	-

The accompanying notes from page 78 to page 160 are an integral part of these separate and consolidated financial statements.

These separate and consolidated financial statements have been approved for issue by the Management Board on 10.05.2023 and signed by:

Teodor Marinov Executive Director	Svetla Georgieva 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	Jock Nunan PricewaterhouseCoopers Audit OOD
Date: 22-05-2023	Date: 22-05-2023

UNITED BULGARIAN BANK AD
UBB
СОФИЯ
ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД
ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 085
ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

UBB
Part of KBC Group

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
ASSETS					
Cash and cash balances with the Central Bank	11	2 274 763	2 162 436	2 274 763	2 162 436
Due from banks	12	1 166 303	2 113 168	1 166 303	2 113 168
Reverse repos with banks	12	1 585 181	445 637	1 585 181	445 637
Loans and advances to customers	13	8 417 347	7 092 359	8 535 681	7 174 528
Financial assets at fair value through profit or loss	14	5 233	6 746	5 233	6 746
Financial assets at fair value through OCI*	15	591 912	737 753	591 912	737 753
Securities at amortized cost	16	3 205 772	2 655 733	3 205 772	2 655 733
Derivative financial instruments	17	13 433	25 002	13 433	25 002
Investments in subsidiaries and associated companies	18	15 022	19 232	3 839	3 416
Intangible assets	19	20 662	15 397	20 680	16 028
Property and equipment	19	94 064	97 273	94 104	97 336
Investment properties	20	98 380	117 279	105 670	125 338
Right-of-use assets	21	16 976	22 170	16 996	22 266
Deferred tax assets	22	2 327	4 078	2 355	4 204
Corporate income tax receivables		6 160	777	6 160	777
Other assets	23	13 743	15 237	13 744	16 748
TOTAL ASSETS		**17 527 278**	**15 530 277**	**17 641 826**	**15 607 116**
LIABILITIES					
Deposits from banks	24	1 970 836	1 398 427	1 970 836	1 398 427
Deposits from customers	25	13 532 215	12 304 294	13 527 040	12 301 127
Derivative financial instruments	17	8 961	6 030	8 961	6 030
Other borrowed funds	26	370 933	111 712	489 430	191 476
Current income tax liabilities		-	-	-	26
Provisions	27	11 762	9 988	11 759	10 000
Lease liabilities	21	16 915	22 185	16 932	22 283
Deferred tax liabilities	22	-	-	-	1
Other liabilities	28	42 146	42 908	42 569	43 344
TOTAL LIABILITIES		**15 953 768**	**13 895 544**	**16 067 527**	**13 972 714**
SHAREHOLDERS' EQUITY					
Share capital		93 838	93 838	93 838	93 838
Share premium		210 058	210 058	210 058	210 058
Retained earnings	29	1 270 238	1 287 421	1 271 027	1 287 090
Revaluation reserve	30	(1 757)	44 414	(1 757)	44 414
Reserve related to actuarial gains/(losses)	27	1 133	(998)	1 133	(998)
TOTAL EQUITY ATTRIBUTABLE TO UBB SHAREHOLDERS		**1 573 510**	**1 634 733**	**1 574 299**	**1 634 402**
TOTAL EQUITY		**1 573 510**	**1 634 733**	**1 574 299**	**1 634 402**
TOTAL EQUITY AND LIABILITIES		**17 527 278**	**15 530 277**	**17 641 826**	**15 607 116**

*Financial assets at fair value through OCI includes pledged under repo deals and for securing state budget funds government bonds amounting to BGN 346 943 thousand (2021: BGN 257 537 thousand).

The accompanying notes from page 78 to page 160 are an integral part of these separate and consolidated financial statements.
These separate and consolidated financial statements have been approved for issue by the Management Board on 10.05.2023 and signed by:

Teodor Marinov
Executive Director
In reference to the auditors' report:

Svetla Georgieva
Executive Director

Gergana Mihaylova
Registered Auditor responsible for the audit

Mariy Apostolov
Grant Thornton OOD

Pavel Pirinski
Registered Auditor responsible for the audit

Jock Nunan
PricewaterhouseCoopers Audit OOD

Date: 22-05-2023

Date: 22-05-2023

UNITED BULGARIAN BANK AD
UBB

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 085
ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

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 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/(loss) for the year, net of tax	-	-	88	359	(15 614)	(15 167)
Total comprehensive income	-	-	171 202	359	(15 614)	155 947
Balance as of 31 December 2021	93 838	210 058	1 287 421	(998)	44 414	1 634 733
Balance as of 1 January 2022	93 838	210 058	1 287 421	(998)	44 414	1 634 733
Profit for the year	-	-	151 502	-	-	151 502
Other comprehensive income/(loss) for the year, net of tax	-	-	2 361	2 131	(46 171)	(41 679)
Total comprehensive income	-	-	153 863	2 131	(46 171)	109 823
Dividends paid	-	-	(171 115)	-	-	(171 115)
Transactions with owners	-	-	(171 115)	-	-	(171 115)
Other	-	-	69	-	-	69
Balance as of 31 December 2022	93 838	210 058	1 270 238	1 133	(1 757)	1 573 510

CONSOLIDATED	Share Capital	Share Premium	Retained Earnings	Reserve related to actuarial losses	Revaluation reserve	Total Attributable to UBB equity shareholders	Total
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/(loss) for the year, net of tax	-	-	88	359	(15 614)	(15 167)	(15 167)
Total comprehensive income	-	-	172 033	359	(15 614)	156 778	156 778
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
Balance as of 1 January 2022	93 838	210 058	1 287 090	(998)	44 414	1 634 402	1 634 402
Profit for the year	-	-	152 620	-	-	152 620	152 620
Other comprehensive income/(loss) for the year, net of tax	-	-	2 361	2 131	(46 171)	(41 679)	(41 679)
Total comprehensive income	-	-	154 981	2 131	(46 171)	110 941	110 941
Dividends paid	-	-	(171 115)	-	-	(171 115)	(171 115)
Transactions with owners	-	-	(171 115)	-	-	(171 115)	(171 115)
Other	-	-	71	-	-	71	71
Balance as of 31 December 2022	93 838	210 058	1 271 027	1 133	(1 757)	1 574 299	1 574 299

The accompanying notes from page 78 to page 160 are an integral part of these separate and consolidated financial statements.

These separate and consolidated financial statements have been approved for issue by the Management Board on 10.05.2023 and signed by:

Teodor Marinov
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Executive Director

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Jock Nunan
PricewaterhouseCoopers Audit OOD

Date: 22-05-2023

Date: 22-05-2023

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITY:					
Profit before tax		168 206	190 215	169 596	191 417
Adjustments for non- cash items:					
Impairment/ (reversal of impairment) of loans and advances to customers	9	45 343	(451)	46 253	(326)
Impairment/ (reversal of impairment) on off-balance sheet commitments	9	275	(4 438)	275	(4 438)
Impairments on non-financial assets	9	3 050	2 175	3 764	2 175
Provisions/ (release of provisions) for legal cases	7	(58)	751	(58)	697
Depreciation related to fixed assets, right-of-use assets and investment property	7,8	23 293	25 486	23 647	25 887
Amortization related to intangible assets	8	4 451	3 403	4 465	3 423
Other provisions	8	4 219	193	4 219	193
Dividend income from associates and subsidiaries		(3 772)	(3 120)	(1 055)	(518)
Cash flow from operating profit before tax and before changes in operating assets and liabilities		**245 007**	**214 214**	**251 106**	**218 510**
Movements in operating assets and liabilities					
Decrease/(increase) in receivables from banks		42 697	(21 914)	42 697	(21 914)
Increase in loans and advances to clients		(1 370 916)	(767 940)	(1 407 982)	(849 169)
Decrease in trading securities		1 513	15 506	1 513	15 506
Decrease/(increase) in derivative financial instruments		14 500	(59 685)	14 500	(59 685)
Decrease in other assets		10 521	11 332	11 596	11 997
Increase in deposits from banks including payables under repo deals		572 409	1 011 937	572 409	1 011 937
Increase in deposits from customers		1 227 921	1 560 170	1 225 913	1 561 226
Increase in lease liabilities		359	167	413	128
(Decrease)/increase in other liabilities		(1 292)	466	(1 321)	163
Income tax paid		(16 000)	(16 605)	(16 026)	(16 626)
NET CASH FLOW FROM OPERATING ACTIVITY		**726 719**	**1 947 648**	**694 818**	**1 872 073**

(Continued on next page)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
CASH FLOWS FROM INVESTING ACTIVITY:					
Purchases of fixed assets		(19 259)	(19 016)	(19 259)	(19 038)
Purchase of intangible assets		(18 894)	(16 746)	(18 295)	(16 867)
Proceeds from sale of fixed assets		19 420	21 817	19 420	21 816
Proceeds from sale of investments in associates		4 210	1 500	(423)	61
Redemption of FVOCI debt securities		194 523	141 988	194 523	141 988
Purchase of AC debt securities		(549 657)	(510 679)	(549 657)	(510 679)
Purchase of FVOCI securities		(92 453)	(72 960)	(92 453)	(72 960)
Dividend received		3 772	3 120	1 055	518
NET CASH FLOW USED IN INVESTING ACTIVITY		**(458 338)**	**(450 976)**	**(465 089)**	**(455 161)**
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividends paid		(171 115)	-	(171 115)	(5)
Proceeds from long-term financing		259 221	43 512	297 954	123 276
Repayments of lease liabilities		(8 773)	(9 483)	(8 854)	(9 482)
NET CASH FLOW FROM FINANCING ACTIVITY		**79 333**	**34 029**	**117 985**	**113 789**
CHANGE IN CASH AND CASH EQUIVALENT					
Net increase in cash and cash equivalents		347 714	1 530 701	347 714	1 530 701
Cash and cash equivalents on 1 January		**3 341 430**	**1 809 739**	**3 341 430**	**1 809 739**
Effect of the change in exchange rate of cash flows and cash equivalents		274	990	274	990
Cash and cash equivalents on 31 December	32	**3 689 418**	**3 341 430**	**3 689 418**	**3 341 430**
Operating cash flows related to interests and fees:		**Separate**	**Separate**	**Consolidated**	**Consolidated**
Paid interest		(12 651)	(12 651)	(12 651)	(12 651)
Received interest		284 553	284 553	284 553	284 553
Paid commission		(33 584)	(24 385)	(34 180)	(24 967)
Received commissions		186 373	161 847	190 148	166 704

The accompanying notes from page 78 to page 160 are an integral part of these separate and consolidated financial statements.

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Executive Director

Svetla Georgieva
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

Jock Nunan
PricewaterhouseCoopers Audit OOD

Date: 22-05-2023

Date: 22-05-2023

UNITED BULGARIAN BANK AD
UBB
SOFIA

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 032
ГРАНТ ТОРНТОН ООД

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 085
ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

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 2022 are in the following configurations:

Supervisory Board:

1) Peter Andronov - Chairman of the Supervisory Board
2) Christine Van Rijsseghem - 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) Teodor Marinov - 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 Small and Medium Enterprises
5) Tatyana Ivanova - Member of the Management Board and Executive Officer Digitalization, Data and Operations
6) Ani Angelova - Member of the Management Board and Executive Officer Retail Banking
7) Dobromir Dobrev - Member of the Management Board and Executive Officer Corporate Banking and Markets
8) Nedyalko Mihaylov - Member of the Management Board and Chief Information Officer

The Bank is represented by two Executive Officers acting.

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 2022 the Bank's operations were conducted through a Headquarters Office in Sofia and 154 branches, 16 business centers and 11 remote work places.

The number of full-time employees of the Bank as of 31 December 2022 was 2 372 (2021: 2 555).
The number of full-time employees of UBB Group as of 31 December 2022 was 2 408 (2021: 2 618).

These separate and consolidated financial statements have been approved for issue by the management Board on 10.05.2023.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS OF PREPARATION

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

Historical cost convention: The financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value.

The financial statements were prepared on a going concern basis. The preparation of financial statements in conformity with IFRS requires the use of certain critical and accounting estimates. It also requires management of the Bank to execute its judgment and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.4.

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

As of 31.12.2022:

Entity name	Ownership (%)	Method of consolidation	Activity
UBB Factoring EOOD	100 %	Fully consolidated	Factoring 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 2022:

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)

2. BASIS OF PREPARATION (CONTINUED)

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

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)

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 impact on the Company during the current or future reporting periods as well as in the foreseeable future transactions.

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 2022 and have not been previously adopted by the Company have been published.
The amendments of the standards listed below are not expected to be material for the bank and for the Group.

Amendments to IAS 1 Presentation of Financial Statements: 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)

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)

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 and Amendments to IFRS 4 Insurance Contracts** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023)

Amendment to IFRS 17: Transition option to insurers applying IFRS 17 (issued on 9 December 2021 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 Company 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

Amendments to IAS 1 Presentation of financial statements: Classification of liabilities as current or non-current – deferral of the effective date (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024)

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Scope

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

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

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

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

3.2. Compliance

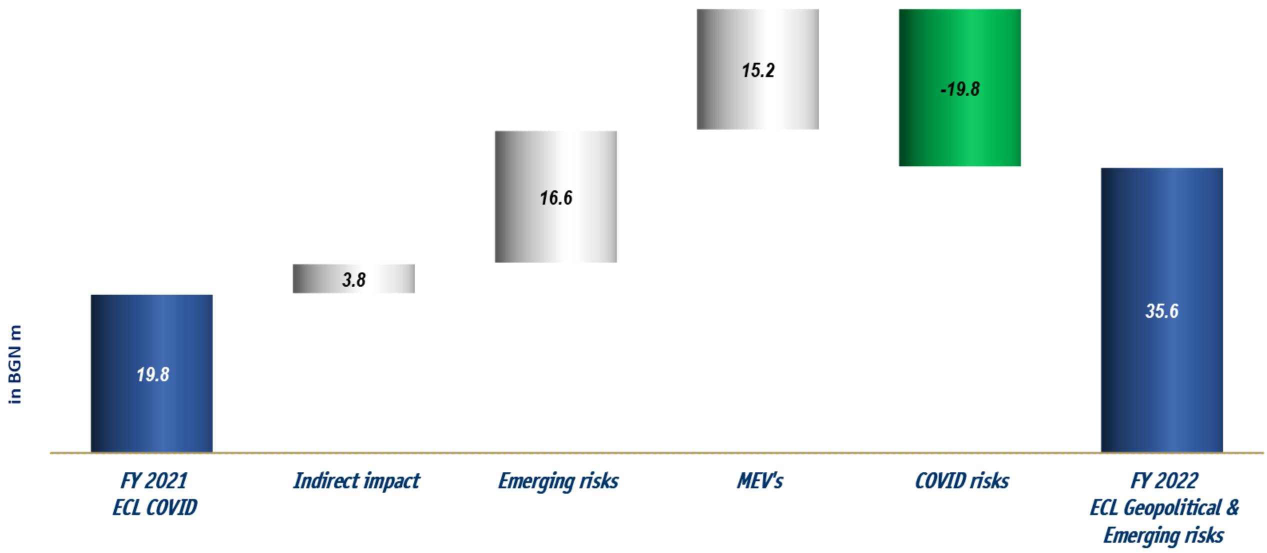
The accounting policies and the judgements estimates and assumptions applied are in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU).

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

3.3. Geopolitical and emerging risks

Introduction:

We have updated the impact assessment for the risks that could adversely affect our loan portfolio. At the end of 2022, the ECL for geopolitical and emerging risks BGN 35.6 million. The impact assessment methodology and the macroeconomic assumptions (MEV's impact) considered are described below in more detail.



All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Geopolitical and emerging risks (continued)

Introduction (continued):

The ECL release of Covid in the first half of 2022 amounting to BGN 19.8 million partially compensating newly booked management overlay for geopolitical and emerging risks amounted to BGN 35.6 million.

Details related to the impact of the geopolitical and emerging risks on the loan impairments during 2023:

• In light of recent developments, we assessed the impact of the main macroeconomic and geopolitical risks on our loan portfolio. The ECL for geopolitical and emerging risks amounts to BGN 35.6 million, comprising:

Direct exposure to Russia, Ukraine & Belarus	UBB doesn't have direct exposures as at 31.12.2022
Indirect impact of the military conflict on the loan portfolio	The conflict is expected to impact Corporate and SME clients through different channels: • Exposure to Corporate and SME clients with material activities in Russia, Ukraine and Belarus or a material dependency on these markets for imports or exports (either directly or indirectly through a client/supplier); • Exposure to Corporate and SME clients with operations that are especially vulnerable to a disruption of oil and/or gas supplies. The analysis indicates that BGN 585 million worth of 'Stage 1' exposures have suffered a significant increase in credit risk not captured by the regular staging assessment. The total ECL for the indirect impact amounted to BGN 3.8 million in 2022
Emerging risks	UBB identified the following subsegments at risk in its portfolio: • Corporate and SME clients active in economic sectors that have been hit by supply chain issues and increasing commodity and energy prices, and that already have a higher credit risk (e.g., Automotive, Chemicals and Metals); • Retail clients with limited reserve repayment capacity for absorbing the higher cost of living and/or higher repayments due to increasing interest rates. The ECL for emerging risks amounted to BGN 16.6 million. The credit risk department performed a detailed update of the vulnerable sectors based on the latest information available and by focusing on the different activities within certain sectors.
Macroeconomic scenarios	The model-driven ECL for geopolitical and emerging risks amounted to BGN 15.2 million in 2022. The increase was driven mainly by the updated macroeconomic forecasts used in calculating the ECL, while the probabilities applied to the base-case, optimistic and pessimistic macroeconomic scenarios were adjusted to 60%, 5% and 35%, respectively, from 80%, 10% and 10% in 2021.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Geopolitical and emerging risks (continued)

Details related to the impact of the geopolitical and emerging risks on the loan impairments during 2023 (continued):

Excluding the collective ECL for management overlay, the Credit Cost Ratio (Net Credit Impairments recognized in the Profit or Loss relative to the average loan portfolio) amounted to 0.36% in 2022 which is by 10 bps higher than 2021 entirely driven by the one-off charge in 2022 related with the implementation of the “new retail models”.

Including the collective COVID-19 ECL, the Credit Cost Ratio is higher than the one in 2021 due to release of the management overlay in 2021.

Credit cost %	2022	2021
Without collective COVID/ Geopolitical & Emerging risks ECL	0.36%	0.26%
With collective COVID/ Geopolitical & Emerging risks ECL	0.55%	-0.06%

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Critical accounting estimates and judgments (continued)

b) Classification of properties acquired from collateral foreclosure

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

c) 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

e) Allowance for impairment losses and un-collectability

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

There are two types of impairment calculations:

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

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

f) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Critical accounting estimates and judgments (continued)

f) Valuation of Investment properties (continued)

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.

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 IFRS 9 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• Financial assets – debt instruments (continued)

• Debt instruments at amortised cost (AC) (continued)

SPPI test (continued)

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*

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• Financial assets – debt instruments (continued)

• Debt instruments at fair value through other comprehensive income (FVOCI) (continued)

Business model assessment (continued)

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)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• 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.*

• 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• Financial assets – equity instruments (continued)

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.

Hedge accounting

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”.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• Financial assets – equity instruments (continued)

• Fair value hedges (continued)

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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• Financial assets – equity instruments (continued)

• Fair value hedges (continued)

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• Financial liabilities (continued)

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.

• 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• Impairement of financial assets

Background

The IFRS 9 impairment model is an Expected Credit Loss (ECL) model which means that it is not necessary for a loss event to occur before an impairment loss is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6.Financial instruments (continued)

• Impairement of financial assets (continued)

Definition of default (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 PD 9 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Derecognition (continued)

3.7.2. Financial liabilities (continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Fair value measurement (continued)

- **Fair value definition (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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Fair value measurement (continued)

- **Fair Value Hierarchy (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)

	Annual depreciation rates (Useful life)
Buildings	3% (33.3 years)
Leasehold improvements	The lease term
Hardware and notebooks	30% (3.4 years)
Other office equipment	15% (6.7 years)
Copy machines	33.3% (3 years)
Cars	25% (4 years)
Office furniture	15% (6.7 years)
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:

	Annual depreciation rates (Useful life)
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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Investment property (continued)

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 is presumable and the expenses can be reliably estimated. All other repairs and maintenance costs for the investment properties are expensed as at the moment of occurrence. The investment properties are depreciated over their useful life which for buildings is set at 33.3 years, for the equipment at 5 years and land is not depreciated.

3.12.1. Valuation of investment property

Investment property (being a repossessed collateral or Investment property acquired in the normal bank operation) is measured initially at acquisition cost representing their fair value at the acquisition date. The fair value of investment property is determined by independent real-estate valuation experts by using generally accepted valuation methods. Such methods include the revenue method and the cash flows discount method. In some cases, fair values are assessed on the basis of recent transactions with similar property in the same location and condition to that of the UBB's assets (market analogues method).

The determination of the fair value of investment property requires the use of estimates such as future cash flows from the assets and discount rates applicable to these assets. These estimates reflect the local market conditions at the date of acquisition and the 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20. Fee and commission income (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22. Leases (continued)

Measurement and recognition of leases – Bank as a lessee (continued)

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

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

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

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

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

The right-of-use assets are depreciated over the lease term on a straight-line basis. The 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

4. NET INTEREST INCOME

	Year ended 31.12.2022	Year ended 31.12.2021	Year ended 31.12.2022	Year ended 31.12.2021
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
A. Interest income on financial instruments calculated using the effective interest rate method				
Deposits placed with banks	9 830	254	9 830	254
Loans and advances to customers	230 327	208 665	232 734	209 825
Financial assets at fair value through other comprehensive income	14 453	15 885	14 453	15 885
Financial assets at amortized cost	35 982	28 283	35 982	28 283
Other assets				
Interest income on liabilities	11 475	9 066	11 659	9 170
Interest income on other financial instruments				
Economic Hedges	5 885	5 460	5 885	5 460
Hedge IRS Derivatives	340	-	340	-
Financial assets at fair value through profit or loss	39	359	39	359
	308 331	**267 972**	**310 922**	**269 236**
B. Interest expense on financial instruments calculated using the effective interest rate method				
Financial liabilities held for trading	(168)	(10)	(168)	(10)
Deposits from banks	(8 081)	(121)	(8 081)	(121)
Deposits from customers	(936)	(1 103)	(936)	(1 103)
Long term borrowings	(248)	(390)	(646)	(390)
Hedge and trading derivatives	(1 235)	(1 548)	(1 235)	(1 548)
Lease liabilities	(31)	(52)	(31)	(52)
Interest expense on assets (Placements with banks and Reverse Repos)	(10 321)	(9 926)	(10 321)	(9 926)
	(21 020)	**(13 150)**	**(21 418)**	**(13 150)**
TOTAL	**287 311**	**254 822**	**289 504**	**256 086**

The interest income on impaired assets for 2022 is 1 990 thousand (2021: 3 849 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

5. NET FEE AND COMMISSION INCOME

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
A. Fee and commission incomes				
Service fees of customer accounts	33 881	31 772	33 880	31 771
Transfer of funds and cash transactions	32 989	32 012	32 988	32 009
Card-related services fees	43 814	33 003	43 814	33 003
Fees FX transactions	25 932	20 962	25 943	20 970
Bank insurance fees	15 683	15 589	15 683	15 589
Loans and advances to customers	14 666	13 363	17 020	14 819
Asset management fees	10 005	6 035	10 005	6 035
Guarantees and letters of credit	3 704	3 702	3 754	3 781
Fiduciary/custodian activities	2 463	2 205	3 825	5 525
Other fees and commissions	1 436	1 606	1 436	1 604
Revenue from valuation of properties	1 312	1 143	1 312	1 143
Fees safety vault	488	455	488	455
	186 373	**161 847**	**190 148**	**166 704**
B. Fee and commission expenses				
Card-related services fees	(25 558)	(16 553)	(25 558)	(16 553)
Guarantees and letters of credit	(1 372)	(1 460)	(1 372)	(1 460)
Fiduciary/custodian activities	(1 088)	(1 004)	(1 088)	(1 004)
Transfer of funds and cash transactions	(1 634)	(1 506)	(1 634)	(1 506)
Fees from sales of SMS packages / e-mails	(1 334)	(1 240)	(1 334)	(1 240)
Insurance expenses	(888)	(1 024)	(1 446)	(1 568)
Expenses on valuation of collateral on loans	(1 555)	(1 387)	(1 555)	(1 387)
Other fees and commissions	(155)	(211)	(193)	(249)
	(33 584)	**(24 385)**	**(34 180)**	**(24 967)**
TOTAL	**152 789**	**137 462**	**155 968**	**141 737**

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

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Net result from financial instruments Held for Trading				
Net gains/(losses) from FX derivatives	721	(51)	721	(51)
Net gains on Foreign exchange				
Position in foreign assets / liabilities				
Gains/ losses on Held for trading financial assets and liabilities - Interest rate instruments	667	564	667	564
	1 388	**513**	**1 388**	**513**
Government and Corporate securities	(1 109)	(333)	(1 109)	(333)
Mutual Funds	-	464	-	464
	(1 109)	**131**	**(1 109)**	**131**
TOTAL	**279**	**644**	**279**	**644**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

7. NET OTHER INCOME

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Gains on disposal of fixed assets	3 151	7 008	3 261	7 150
Rental income	3 856	4 652	3 993	4 792
Income from operational events	421	408	421	408
Other income from investment properties	396	9	1 025	689
Other operating income	137	253	1 183	1 218
Direct costs of acquired properties	(1 421)	(2 255)	(1 435)	(2 286)
Expenses from operational events	(437)	(1 451)	(437)	(1 451)
Expenses related to collateral on loans	(7)	(322)	(7)	(322)
Income/(expenses) on provisions for legal cases	58	(751)	58	(697)
Depreciation of investment property	(2 729)	(3 031)	(3 038)	(3 366)
Other	(63)	(154)	(61)	(154)
TOTAL	**3 362**	**4 366**	**4 963**	**5 981**

8. OPERATING EXPENSES

a) Staff expenses

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Wages and Salaries	(71 817)	(70 416)	(73 581)	(72 457)
Social security costs	(13 389)	(12 701)	(13 671)	(13 031)
Bonuses and other compensation expenses	(14 572)	(10 849)	(14 836)	(11 105)
Other staff costs	(5 756)	(6 413)	(5 847)	(6 558)
Provision for staff related restructuring charge	(3 445)	-	(3 445)	-
Pension costs - defined contribution plans	(774)	(193)	(774)	(193)
TOTAL	**(109 753)**	**(100 572)**	**(112 154)**	**(103 344)**

In 2022, staff expenses increased by 9.1% compared to 2021 mainly due to the payment of a one-off bonus for staff at the amount of BGN 5 070 thousand on individual base and BGN 5 182 thousand on consolidated base.

b) General administrative expenses

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
IT expenses	(28 259)	(27 912)	(28 406)	(28 111)
Banking tax	(19 523)	(15 645)	(19 523)	(15 645)
Repair, maintenance and other facilities expenses	(17 362)	(17 587)	(17 539)	(17 736)
Rental expenses	(1 194)	(1 257)	(1 198)	(1 263)
Advertising, marketing and communication	(6 361)	(3 286)	(6 373)	(3 294)
Professional fees	(4 158)	(2 623)	(4 286)	(2 748)
Business trip expenses	(417)	(233)	(424)	(237)
Costs charged by other KBC Group entities	(1 528)	(1 187)	(1 528)	(1 187)
Training expenses	(277)	(264)	(278)	(267)
Other expenses	(17 887)	(16 374)	(18 048)	(16 517)
TOTAL	**(96 966)**	**(86 368)**	**(97 603)**	**(87 005)**

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Audit expenses	(482)	(548)	(509)	(578)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

8. OPERATING EXPENSES (CONTINUED)

c) Depreciation and amortization expenses

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Depreciation of fixed assets	(12 226)	(13 144)	(12 249)	(13 172)
Depreciation of right-of-use assets	(8 338)	(9 311)	(8 360)	(9 349)
Amortization of intangible assets	(4 451)	(3 403)	(4 465)	(3 423)
TOTAL	**(25 015)**	**(25 858)**	**(25 074)**	**(25 944)**

9. IMPAIRMENT EXPENSES

The net charge for the impairments for year ended 31 December 2022 and 31 December 2021 as follows:

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Impairment on financial assets at AC and at FVOCI	**(45 343)**	**451**	**(46 253)**	**326**
Loans and advances to customers*	(45 001)	1 791	(45 778)	1 719
Collection expenses	(927)	(1 404)	(1 051)	(1 457)
Due from banks receivables	(10)	(104)	(10)	(104)
Bonds at FVOCI	39	22	39	22
Bonds at AC	382	318	382	318
Other receivables	174	(172)	165	(172)
Other Impairments	**(3 325)**	**2 263**	**(4 039)**	**2 263**
Fixed intangible assets	(9)	(895)	(723)	(895)
Investment Property	(2 934)	(612)	(2 934)	(612)
Impairment of foreclosed assets	(107)	(668)	(107)	(668)
(Impairment)/Reversal of impairment on off-statement of financial position commitment	(275)	4 438	(275)	4 438
TOTAL	**(48 668)**	**2 714**	**(50 292)**	**2 589**

* Impairments of Loans and advances to customers include income from written-off loans at the amount of BGN 17 414 thousand both on individual and consolidated base for the year ended 31 December 2022 (2021: 14 246 thousand both on individual and consolidated base).

10. INCOME TAX EXPENSE

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Current tax expense	(15,189)	(17,979)	(15,189)	(17,979)
Deferred tax expense/ (income) related to origination and reversal of temporary differences	(1,515)	(1,122)	(1,612)	(1,205)
Tax expense	**(16,704)**	**(19,101)**	**(16,801)**	**(19,184)**
Share of tax in subsidiaries and equity method investments	-	-	(175)	(288)
TOTAL	**(16,704)**	**(19,101)**	**(16,976)**	**(19,472)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

10. INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Profit before taxation	168,206	190,215	169,596	191,417
Prima facie tax calculated at an applicable tax rate (10% for 2021 and 2020)	(16,821)	(19,022)	(16,960)	(19,142)
Tax effect of income/(expenses) that are not deductible in determining the taxable profit	117	(79)	159	(79)
Tax expense	**(16,704)**	**(19,101)**	**(16,801)**	**(19,221)**
Share of tax in associates, subsidiaries and equity method investments	-	-	(175)	(251)
TOTAL	**(16,704)**	**(19,101)**	**(16,976)**	**(19,472)**
Effective income tax rate	9.93%	10.04%	10.01%	10.17%

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 2022 and as of 31 December 2021 are calculated using the tax rate of 10% enacted as of that date to be effective for 2022 and 2021.

11. CASH AND CASH BALANCES WITH THE CENTRAL BANK

	Year ended 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Cash in hand	238 719	243 722	238 719	243 722
Minimum reserve with the Central Bank	1 327 707	1 171 667	1 327 707	1 171 667
Current account with the Central Bank	708 337	747 047	708 337	747 047
TOTAL	**2 274 763**	**2 162 436**	**2 274 763**	**2 162 436**

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 31.12.2022 SEPARATE	Year ended 31.12.2021 SEPARATE	Year ended 31.12.2022 CONSOLIDATED	Year ended 31.12.2021 CONSOLIDATED
Nostro accounts	130 142	546 861	130 142	546 861
Interbank placements	186 574	897 901	186 574	897 901
Other loans and advances to banks	849 587	668 406	849 587	668 406
Reverse Repos with banks	1 585 181	445 637	1 585 181	445 637
TOTAL	**2 751 484**	**2 558 805**	**2 751 484**	**2 558 805**
Included in cash equivalents (note 33)	2 742 362	2 350 661	2 742 362	2 350 661

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 12/31/2022	Year ended 12/31/2021	Year ended 12/31/2022	Year ended 12/31/2021
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Individuals (retail)				
Overdrafts	20 844	57 911	20 844	57 911
Credit cards	86 944	94 660	86 944	94 660
Mortgages	2 111 495	1 726 274	2 111 495	1 726 274
Consumer loans	1 497 291	1 246 512	1 497 291	1 246 512
Other loans	31 296	37 677	31 296	37 677
	3 747 870	**3 163 034**	**3 747 870**	**3 163 034**
Corporate entities				
Financial institutions	140 824	100 547	140 824	100 547
Large corporate customers	1 615 600	1 341 916	1 615 600	1 341 916
SME corporate	2 982 178	2 568 098	3 103 971	2 653 417
Governmental institutions	88 004	74 446	88 004	74 446
	4 826 606	**4 085 007**	**4 948 399**	**4 170 326**
Other Financial assets	**21 979**	**35 223**	**22 043**	**35 193**
Loans and advances to customers, gross	**8 596 455**	**7 283 264**	**8 718 312**	**7 368 553**
Less: allowance for impairment	**(179 108)**	**(190 905)**	**(182 631)**	**(194 025)**
Loans and advances to customers, net of provision	**8 417 347**	**7 092 359**	**8 535 681**	**7 174 528**

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

			Year ended 31.12.2022 SEPARATE			Year ended 31.12.2021 SEPARATE
	Gross Carrying Amount	**Allowance for impairment**	**Net Carrying Amount**	**Gross Carrying Amount**	**Allowance for impairment**	**Net Carrying Amount**
Individuals (retail)	**3 764 883**	**(94 207)**	**3 670 676**	**3 174 387**	**(79 259)**	**3 095 128**
Stage 1	3 293 393	(8 703)	3 284 690	2 782 423	(2 930)	2 779 493
Stage 2	370 503	(29 573)	340 930	256 795	(19 996)	236 799
Stage 3	100 987	(55 931)	45 056	135 169	(56 333)	78 836
Corporate entities	**4 831 572**	**(84 901)**	**4 746 671**	**4 108 877**	**(111 646)**	**3 997 231**
Stage 1	3 803 870	(6 311)	3 797 559	3 473 460	(5 453)	3 468 007
Stage 2	846 598	(12 869)	833 729	338 616	(8 793)	329 823
Stage 3	181 104	(65 721)	115 383	296 801	(97 400)	199 401
Loans and advances to customers, net	**8 596 455**	**(179 108)**	**8 417 347**	**7 283 264**	**(190 905)**	**7 092 359**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Year ended 31.12.2022 CONSOLIDATED			Year ended 31.12.2021 CONSOLIDATED		
	Gross Carrying Amount	**Allowance for impairment**	**Net Carrying Amount**	**Gross Carrying Amount**	**Allowance for impairment**	**Net Carrying Amount**
Individuals (retail)	**3 764 883**	**(94 207)**	**3 670 676**	**3 174 387**	**(79 259)**	**3 095 128**
Stage 1	3 293 393	(8 703)	3 284 690	2 782 423	(2 930)	2 779 493
Stage 2	370 503	(29 573)	340 930	256 795	(19 996)	236 799
Stage 3	100 987	(55 931)	45 056	135 169	(56 333)	78 836
Corporate entities	**4 953 429**	**(88 424)**	**4 865 005**	**4 194 166**	**(114 766)**	**4 079 400**
Stage 1	3 754 849	(6 290)	3 748 559	3 441 857	(5 439)	3 436 418
Stage 2	1 014 780	(13 774)	1 001 006	451 364	(9 448)	441 916
Stage 3	183 800	(68 360)	115 440	300 945	(99 879)	201 066
Loans and advances to customers, net	**8 718 312**	**(182 631)**	**8 535 681**	**7 368 553**	**(194 025)**	**7 174 528**

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

Credit loss allowance SEPARATE	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			Total
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2022	(90)	(2 840)	(5 453)	(1 181)	(18 815)	(8 669)	(22 817)	(33 516)	(97 524)	**(190 905)**
Increases due to origination	(63)	(4 297)	(1 892)	(3)	(682)	(806)	-	-	-	**(7 743)**
Decrease due to derecognition /full repayment/	5	602	322	108	2 805	1 415	1 294	1 587	8 927	**17 065**
Decrease in allowance account due to write-offs/sale to third party	-	-	-	-	-	-	18 574	2 458	50 862	**71 894**
Other adjustments (Unwinding)	-	-	-	-	-	(2)	-	-	1 936	**1 934**
Changes due to changes in model/methodology	27	1 840	-	51	(6 453)	-	-	-	-	**(4 535)**
Changes due to change in credit risk (net)	62	(3 949)	712	775	(6 178)	(4 807)	(9 420)	(14 091)	(29 922)	**(66 818)**
At 31 December 2022	**(59)**	**(8 644)**	**(6 311)**	**(250)**	**(29 323)**	**(12 869)**	**(12 369)**	**(43 562)**	**(65 721)**	**(179 108)**

Credit loss allowance SEPARATE	Stage 1 (12-months ECL)			Stage 2 (lifetime ECL for SICR)			Stage 3 (lifetime ECL for credit impaired)			Total
	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)	(141 002)	**(277 902)**
Increases due to origination	(78)	(1 484)	(1 981)	-	(1 784)	(480)	-	-	-	**(5 807)**
Decrease due to derecognition /full repayment/	9	722	1 365	183	4 579	888	3 330	2 132	10 354	**23 562**
Decrease in allowance account due to write-offs	-	-	-	-	-	-	19 602	20 843	55 468	**95 913**
Other adjustments (Unwinding)	-	-	1			(13)	-	-	3 721	**3 709**
Changes due to changes in model/methodology	-	-	-	-	-	1 031	-	-	-	**1 031**
Changes due to change in credit risk (net)	107	1 497	6 736	748	5 533	(2 913)	(6 536)	(10 518)	(26 065)	**(31 411)**
At 31 December 2021	**(90)**	**(2 840)**	**(5 453)**	**(1 181)**	**(18 815)**	**(8 669)**	**(22 817)**	**(33 516)**	**(97 524)**	**(190 905)**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Credit loss allowance	Stage 1			Stage 2			Stage 3			
CONSOLIDATED	(12-months ECL)			(lifetime ECL for SICR)			(lifetime ECL for credit impaired)			**Total**
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2022	(90)	(2 840)	(5 439)	(1 181)	(18 815)	(9 325)	(22 817)	(33 516)	(100 002)	**(194 025)**
Increases due to origination	(63)	(4 297)	(1 892)	(3)	(682)	(1 029)	-	-	-	**(7 966)**
Decrease due to derecognition /full repayment/	5	602	322	108	2 805	1 415	1 294	1 587	8 927	**17 065**
Decrease in allowance account due to write-offs/sale to third party	-	-	-	-	-	-	18 574	2 458	51 289	**72 321**
Other adjustments (Unwinding)	-	-	-	-	-	(2)	-	-	1 943	**1 941**
Changes due to changes in model/methodology	27	1 840		51	(6 453)	-	-	-	-	-
Changes due to change in credit risk (net)	62	(3 949)	719	775	(6 178)	(4 833)	(9 420)	(14 091)	(30 517)	**(67 432)**
At 31 December 2022	**(59)**	**(8 644)**	**(6 290)**	**(250)**	**(29 323)**	**(13 774)**	**(12 369)**	**(43 562)**	**(68 360)**	**(182 631)**

Credit loss allowance	Stage 1			Stage 2			Stage 3			
CONSOLIDATED	(12-months ECL)			(lifetime ECL for SICR)			(lifetime ECL for credit impaired)			**Total**
	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	Mortgage	Consumer	Corporate	
At 1 January 2021	(128)	(3 575)	(11 574)	(2 112)	(27 143)	(8 231)	(39 213)	(45 973)	(142 998)	**(280 947)**
Increases due to origination	(78)	(1 484)	(1 981)	-	(1 784)	(413)	-	-	-	**(5 740)**
Decrease due to derecognition /full repayment/	9	722	1 365	183	4 579	888	3 330	2 132	10 354	**23 562**
Decrease in allowance account due to write-offs	-	-	-	-	-	-	19 602	20 843	55 468	**95 913**
Other adjustments (Unwinding)	-	-	2	-	-	(13)	-	-	3 721	**3 710**
Changes due to changes in model/methodology	-	-	-	-	-	1 031	-	-	-	**1 031**
Changes due to change in credit risk (net)	107	1 497	6 749	748	5 533	(2 587)	(6 536)	(10 518)	(26 547)	**(31 554)**
At 31 December 2021	**(90)**	**(2 840)**	**(5 439)**	**(1 181)**	**(18 815)**	**(9 325)**	**(22 817)**	**(33 516)**	**(100 002)**	**(194 025)**

1. The P&L charge not included in ECL movement relates to collection expenses at the amount of BGN 927 thousand and BGN 1 051 thousand, respectively on individual and consolidation level, as well as income from written-off loans at the amount of BGN 17 414 thousand and BGN 17 464 respectively 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 71 894 thousand and BGN 72 321 thousand respectively on individual and consolidate base (2021: BGN 95 913 thousand on both individual and consolidated base).
3. The tables above do not separately disclose the stage transfers embedded in the management overlay of the forecasted collective impairments due to increased Geopolitical risks, 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

A change in the weight assigned to base forward looking macro-economic set of assumptions by 50% towards the immediate downside level assumptions would result in an increase in ECL by BGN 5.61 million at 31 December 2022 (2021: BGN 0.76 million). A corresponding change towards the upside assumptions would result in a decrease in ECL by BGN 2.34 million at 31 December 2022 (2021: BGN 0.44 million).

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

➢ Changing in the weights of IFRS 9 scenario related to Geopolitical (Russia-Ukraine war) and Emergency risks – from 80% Base, 10% Up, 10% Down to 60% Base, 5% Up, 35% Down.
➢ Worsening of the macroeconomic variables related to the worsted macroeconomic environment (Geopolitical and Emergency risks) compared to the end of 2021.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31.12.2022	Year ended 31.12.2021	Year ended 31.12.2022	Year ended 31.12.2021
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Bulgarian government securities (listed)	5 233	6 746	5 233	6 746
TOTAL	**5 233**	**6 746**	**5 233**	**6 746**

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 31.12.2022

SEPARATE		
Currency	**Fixed interest**	**Total**
BGN	5 218	**5 218**
EUR	15	**15**
TOTAL	**5 233**	**5 233**

As of 31.12.2021

SEPARATE		
Currency	**Fixed interest**	**Total**
BGN	6 736	**6 736**
EUR	10	**10**
TOTAL	**6 746**	**6 746**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

As of 31.12.2022

CONSOLIDATED		
Currency	**Fixed interest**	**Total**
BGN	5 218	**5 218**
EUR	15	**15**
TOTAL	**5 233**	**5 233**

As of 31.12.2021

CONSOLIDATED		
Currency	**Fixed interest**	**Total**
BGN	6 736	**6 736**
EUR	10	**10**
TOTAL	**6 746**	**6 746**

As of 31.12.2022

SEPARATE AND CONSOLIDATED			
Fair value measurement	**Level 1**	**Level 2**	**Total**
Government securities	8	5 225	**5 233**
TOTAL	**8**	**5 225**	**5 233**

As of 31.12.2021

SEPARATE AND CONSOLIDATED			
Fair value measurement	**Level 1**	**Level 2**	**Total**
Government securities	-	6 746	**6 746**
TOTAL	**-**	**6 746**	**6 746**

Rating “Moody’s”

	As of 31.12.2022	As of 31.12.2021	As of 31.12.2022	As of 31.12.2021
	SEPARATE	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
BBB	5 233	6 746	5 233	6 746

All amounts are in thousand Bulgarian Levs, unless otherwise stated

15. FINANCIAL ASSETS AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME

	As of 31.12.2022	As of 31.12.2021	As of 31.12.2022	As of 31.12.2021
Financial assets at fair value through OCI	**SEPARATE**	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Bulgarian government securities (Stage 1) *				
Listed on official stock markets	549 140	682 256	549 140	682 256
(Impairments)	(85)	(122)	(85)	(122)
Net amount after impairments	**549 055**	**682 404**	**549 055**	**682 404**
Foreign government securities (Stage 1)				
Listed on official stock markets	29 179	38 148	29 179	38 148
Unlisted	-	6	-	6
(Impairments)	(12)	(14)	(12)	(14)
Net amount after impairments	**29 167**	**38 140**	**29 167**	**38 140**
Equity securities FVOCI				
Equity securities in local entities				
Listed on official stock markets	-	630	-	630
Unlisted	9 951	9 953	9 951	9 953
	9 951	**10 583**	**9 951**	**10 583**
Equity securities in foreign entities				
Unlisted	3 739	6 626	3 739	6 626
	3 739	**6 626**	**3 739**	**6 626**
TOTAL	**591 912**	**737 753**	**591 912**	**737 753**

*Part of the owned Bulgarian government securities are pledged for budget attracted funds at the amount of BGN 85 545 thousand as at 31 December 2022 (2021: BGN 93 524 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 31.12.2022

SEPARATE

Currency	Fixed interest	Non-Interest bearing	Total
BGN	138 163	9 950	**148 113**
USD	12 188	3 633	**15 821**
EUR	427 871	107	**427 978**
TOTAL	**578 222**	**13 690**	**591 912**

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**
TOTAL	**720 544**	**17 209**	**737 753**

As of 31.12.2022

CONSOLIDATED

Currency	Fixed interest	Non-Interest bearing	Total
BGN	138 163	9 950	**148 113**
USD	12 188	3 633	**15 821**
EUR	427 871	107	**427 978**
TOTAL	**578 222**	**13 690**	**591 912**

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**
TOTAL	**720 544**	**17 209**	**737 753**

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 31.12.2022

SEPARATE					
Fair value measurement	**Level 1**	**Level 2**	**Level 3**	**Not measured**	**Total**
Government securities	489 489	73 625	15 108	-	**578 222**
Equity securities FVOCI	-	-	-	13 690	**13 690**
TOTAL	**489 489**	**73 625**	**15 108**	**13 690**	**591 912**

As of 31.12.2021

SEPARATE					
Fair value measurement	**Level 1**	**Level 2**	**Level 3**	**Not measured**	**Total**
Government securities	617 462	85 473	17 609	-	**720 544**
Equity securities FVOCI	-	-	-	17 209	**17 209**
TOTAL	**617 462**	**85 473**	**17 609**	**17 209**	**737 753**

As of 31.12.2022

CONSOLIDATED					
Fair value measurement	**Level 1**	**Level 2**	**Level 3**	**Not measured**	**Total**
Government securities	489 489	73 625	15 108	-	**578 222**
Equity securities FVOCI	-	-	-	13 690	**13 690**
TOTAL	**489 489**	**73 625**	**15 108**	**13 690**	**591 912**

As of 31.12.2021

CONSOLIDATED					
Fair value measurement	**Level 1**	**Level 2**	**Level 3**	**Not measured**	**Total**
Government securities	617 462	85 473	17 609	-	**720 544**
Equity securities FVOCI	-	-	-	17 209	**17 209**
TOTAL	**617 462**	**85 473**	**17 609**	**17 209**	**737 753**

16. SECURITIES AT AMORTIZED COST

	As of 31.12.2022	As of 31.12.2021	As of 31.12.2022	As of 31.12.2021
	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Bulgarian government securities after impairments (Stage 1) *	**2 391 408**	**2 061 248**	**2 391 408**	**2 061 248**
listed on official stock markets	2 391 858	1 013 898	2 391 858	1 013 898
Unlisted		1 047 751		1 047 751
(Impairments)	(450)	(401)	(450)	(401)
Foreign government securities after impairments (Stage 1)	**814 364**	**593 384**	**814 364**	**593 384**
listed on official stock markets	769 185	303 741	769 185	303 741
Unlisted	45 247	289 714	45 247	289 714
(Impairments)	(68)	(71)	(68)	(71)
Debt securities of corporate entities (Stage 3)	-	**1 101**	-	**1 101**
Non-performing	-	2 860	-	2 860
(Impairments)	-	(1 759)	-	(1 759)
TOTAL	**3 205 772**	**2 655 733**	**3 205 772**	**2 655 733**

*Part of the owned Bulgarian government securities are pledged for budget attracted funds at the amount of BGN 252 263 thousand as at 31 December 2022 (2021: BGN 162 095 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 31.12.2022
SEPARATE

Currency	Fixed interest	Total
BGN	1 213 889	**1 213 889**
USD	358 230	**358 230**
EUR	1 633 653	**1 633 653**
TOTAL	**3 205 772**	**3 205 772**

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**
TOTAL	**2 655 733**	**2 655 733**

As of 31.12.2022
CONSOLIDATED

Currency	Fixed interest	Total
BGN	1 213 889	**1 213 889**
USD	358 230	**358 230**
EUR	1 633 653	**1 633 653**
TOTAL	**3 205 772**	**3 205 772**

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**
TOTAL	**2 655 733**	**2 655 733**

As of 31.12.2022
SEPARATE AND CONSOLIDATED

Fair value measurement	Level 1	Level 2	Level 3	Not measured	Total
Government securities	2 108 155	1 073 090	24 527	-	**3 205 772**
TOTAL	**2 108 155**	**1 073 090**	**24 527**	**-**	**3 205 772**

As of 31.12.2021
SEPARATE AND CONSOLIDATED

Fair value measurement	Level 1	Level 2	Level 3	Not measured	Total
Government securities	1 834 150	773 394	1 069	46 019	**2 654 632**
Debt securities of corporate entities	-	-	1 101	-	**1 101**
TOTAL	**1 834 150**	**773 394**	**2 170**	**46 019**	**2 655 733**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

	SEPARATE AND CONSOLIDATED 31.12.2022			SEPARATE AND CONSOLIDATED 31.12.2021		
	Contract/ notional amount	Assets	Fair value Liabilities	Contract/ notional amount	Assets	Fair value Liabilities
Derivatives held for trading	**1 777 992**	**8 082**	**8 961**	**1 706 999**	**25 002**	**2 118**
Of which currency forwards	428 568	2 998	1 283	281 574	416	484
Of which currency swaps	1 317 616	1 697	1 878	1 392 558	24 454	1 508
Of which Open forwards	14 650	1	2 209	15 048	80	21
Of which Interest Rate swaps	17 158	3 386	3 591	17 819	52	105
Hedging derivatives	**117 350**	**5 351**	**-**	**117 350**	-	**3 912**
Of which Interest Rate swaps	117 350	5 351	-	117 350	-	3 912
Total derivative financial instruments	**1 895 342**	**13 433**	**8 961**	**1 824 349**	**25 002**	**6 030**

	SEPARATE AND CONSOLIDATED	
	31.12.2022	31.12.2021
Net result from FV hedges		
Change in the fair value of hedging instruments (interest rate swaps) due to the hedged risk	(9 154)	4 027
Adjustments for credit risk of hedging derivatives - CVA net of DVA	(109)	(115)
Net change in fair value of hedging instruments	(9 263)	3 912
Net change in fair value of hedged asset's value due to hedged risk	9 154	(4 027)
Net result from FV hedges recognized in the statement of profit or loss	**(109)**	**(115)**

The table below presents summary for hedging derivatives as of 31 December 2022:

HEDGING DERIVATIVES	SEPARATE AND CONSOLIDATED										
						Hedging instrument			**Hedged item**	**Impact of equity**	
As of 31.12.2022	Notional amounts		Carrying value								
Hedging strategy	Purchased	Sold	Assets	Liabilities	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 Purchased	Effective portion recognized in OCI Sold
Fair value hedge											
Interest Rate swaps	**117 350**	**117 350**	**5 351**	-	**(9 170)**	Debt securities held at FVOCI	**117 642**	-	**(11 176)**	**(109)**	**(2 006)**
Total	**117 350**	**117 350**	**5 351**	-	**(9 170)**	**Total**	**117 642**	-	**(11 176)**	**(109)**	**(2 006)**

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

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 2021:

HEDGING DERIVATIVES											**SEPARATE AND CONSOLIDATED**
									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				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
Hedging strategy	Purchased	Sold	Assets	Liabilities		Type		Carrying value			
Fair value hedge											
Interest Rate swaps	117 350	117 350	-	3 912	(2 940)	Debt securities held at FVOCI	129 116	-	(4 496)	(115)	(1 556)
Total	**117 350**	**117 350**	**-**	**3 912**	**(2 940)**	**Total**	**129 116**	**-**	**(4 496)**	**(115)**	**(1 556)**

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 31.12.2022

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
East Golf Properties EOOD	Bulgaria	100%	9 146 365	BGN	9 046	9 046
UBB Centre Management EOOD	Bulgaria	100%	6 992	BGN		
Drujestvo za Kasovi Uslugi AD	Bulgaria	25%	3 125	BGN	2 976	2 976
Total investments in subsidiaries and associated companies					15 022	15 022

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
Total investments in subsidiaries and associated companies					**19 232**	**19 232**

*In May 2022, UBB AD in its capacity as a sole owner of the capital of UBB Insurance Broker EAD 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 for a sale price of 1 950 thousand.

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 31.12.2022
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	3 839
Total investments in associates					**2 976**	**3 839**

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
Total investments in associates					**2 976**	**3 416**

Summarized financial information for the associates of UBB:

	As of 31.12
BALANCE AS OF 1 JANUARY 2021	3 477
Additions – increase of shareholding	
Payments of dividents	(300)
Income from equity method investments (net of tax)	243
Other	(4)
BALANCE AS OF 31 DECEMBER 2021	3 416
Income from equity method investments (net of tax)	421
Other	2
BALANCE AS OF 31 DECEMBER 2022	**3 839**

	As of 31.12.2022	As of 31.12.2021
	Druzhestvo za Kasovi Uslugi	Druzhestvo za Kasovi Uslugi
Carrying amount	3 839	3 416
Revenue	8 856	8 063
Depreciation and amortization	1 238	1 147
Gross profit from continuing operation	1 869	1 081
Net profit for the year	1 682	973
Other comprehensive income	8	(14)
Total comprehensive income	1 690	959
Group's share of profits of associates	421	243
Dividends distributed	-	1 200
% Holding	25%	25%
Statement of financial position:	17 639	16 117
Current assets	11 220	9 265
incl. cash and cash equivalents	9 440	7 632
Non-current assets	6 419	6 852
Current liabilities	839	726
Current liabilities (excl. trade and other payables and provisions)	27	19
Non-current liabilities	846	1 127
Non-current liabilities (excl. trade and other payables and provisions)	-	30

UBB Part of KBC Group

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 2022 are as follows:

SEPARATE

COST	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets*	**Total**
As of 1 January, 2022	121 903	123 794	**245 697**	41 742	**287 439**
Additions	895	18 364	**19 259**	18 894	**38 153**
Disposals	(1 390)	(29 094)	**(30 484)**	(380)	**(30 864)**
Transfers	-	(9 439)	**(9 439)**	(9 169)	**(18 608)**
As of 31 December, 2022	**121 408**	**103 625**	**225 033**	**51 087**	**276 120**
DEPRECIATION/ AMORTIZATION					
As of 1 January, 2022	(55 322)	(93 102)	**(148 424)**	(26 345)	**(174 769)**
Charge for 2022	(2 830)	(9 396)	**(12 226)**	(4 451)	**(16 677)**
Impairments for 2022				(9)	**(9)**
Depreciation/Amortization charged on disposals	931	28 750	**29 681**	380	**30 061**
As of 31 December, 2022	(57 221)	(73 748)	**(130 969)**	(30 425)	**(161 394)**
NET BOOK VALUE	**64 187**	**29 877**	**94 064**	**20 662**	**114 726**

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

CONSOLIDATED

COST	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets*	**Total**
As of 1 January, 2022	121 903	124 165	**246 068**	42 803	**288 871**
Additions	895	18 364	**19 259**	18 295	**37 554**
Disposals	(1 390)	(29 094)	**(30 484)**	(380)	**(30 864)**
Transfers	-	(9 439)	**(9 439)**	(9 169)	**(18 608)**
As of 31 December, 2022	**121 408**	**103 996**	**225 404**	**51 549**	**276 953**
DEPRECIATION/ AMORTIZATION					
As of 1 January, 2022	(55 322)	(93 410)	**(148 732)**	(26 775)	**(175 507)**
Charge for 2022	(2 830)	(9 419)	**(12 249)**	(4 465)	**(16 714)**
Impairments for 2022				(9)	**(9)**
Depreciation/Amortization charged on disposals	931	28 750	**29 681**	380	**30 061**
As of 31 December, 2022	(57 221)	(74 079)	**(131 300)**	(30 869)	**(162 169)**
NET BOOK VALUE	**64 187**	**29 917**	**94 104**	**20 680**	**114 784**

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 2021 are as follows:

SEPARATE

COST	Land and buildings	Equipment and other assets	**Total property and equipment**	Intangible assets*	**Total**
As of 1 January1, 2021	128 732	139 142	**267 874**	61 109	**328 983**
Additions	907	18 109	**19 016**	16 746	**35 762**
Disposals	(7 508)	(23 482)	**(30 990)**	(28 357)	**(59 347)**
Transfers	(228)	(9 975)	**(10 203)**	(7 756)	**(17 959)**
As of 31 December 2021	121 903	123 794	**245 697**	41 742	**287 439**
DEPRECIATION/ AMORTIZATION					
As of 1 January1, 2021	(57 470)	(105 837)	**(163 307)**	(50 404)	**(213 711)**
Charge for 2021	(2 930)	(10 214)	**(13 144)**	(3 403)	**(16 547)**
Impairments for 2021	(121)	(140)	**(261)**	(895)	**(1 156)**
Transfers	16	(16)			
Depreciation/Amortization charged on disposals	5 183	23 105	**28 288**	28 357	**56 645**
As of 31 December, 2021	(55 322)	(93 102)	**(148 424)**	(26 345)	**(174 769)**
NET BOOK VALUE	**66 581**	**30 692**	**97 273**	**15 397**	**112 670**

CONSOLIDATED

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

All amounts are in thousand Bulgarian Levs, unless otherwise stated

20. INVESTMENT PROPERTIES

	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of 1January 2022	138 076	148 113
Additions	2 338	2 338
Transfers	(369)	(369)
Disposals	(33 017)	(33 589)
As of 31December 2022	107 028	116 493
DEPRECIATION		
As of 1January 2022	(20 797)	(22 775)
Charge for 2022	(2 729)	(3 038)
Depreciation/Amortization charged on disposals	16 918	17 030
Impairment for the period	(2 040)	(2 040)
As of 31December 2022	(8 648)	(10 823)
NET BOOK VALUE	**98 380**	**105 670**

	SEPARATE	CONSOLIDATED
	Investment properties	Investment properties
As of 1January 2021	153 721	165 276
Additions	12 609	12 609
Transfers	(170)	(170)
Disposals	(28 084)	(29 602)
As of 31December 2021	138 076	148 113
DEPRECIATION		
As of 1January 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 31December 2021	(20 797)	(22 775)
NET BOOK VALUE	**117 279**	**125 338**

The fair value of the investment property held by UBB as at 31 December 2022 and as at 31 December 2021 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 2 155 thousand as at 31 December 2022 (2021: BGN 1 289 thousand). Direct expenses and rental income are disclosed in Note 7.

Contractual obligations for construction or development of investment property amount to BGN 646 thousand as at 31 December 2022 (2021: BGN 491 thousand).

Fair value of the investment property has been categorized as fair value based on the input data used in the valuation techniques.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

20. INVESTMENT PROPERTIES (CONTINUED)

Type of property	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Residential	1 998	3 535	1 998	3 535
Vacation	13 544	11 579	20 834	20 035
Industrial	4 833	14 343	4 833	14 343
Plots (land)	16 155	21 146	16 155	21 146
Commercial	39 413	40 458	39 413	40 458
Millennium center (investment office building)	44 508	48 855	44 508	48 855
Fair value of investment property	**120 451**	**139 916**	**127 741**	**148 372**

Type of investment property	Valuation technique	Significant unobservable Inputs	Range (weighted average) 2021	2022
Residential	RVM	Standard construction prices per sq. m.	€ 400 - € 550	€ 500 - € 600
		Annual growth of standard and construction prices	5%	3%
	MVM	Offer (deal) price per sq. m.	€ 300 - € 750	€ 350 - € 1000
		Annual growth of market comparatives (real deals)	1.10%	5.00%
Vacation properties	RVM	Standard construction prices per sq. m.	n/a	€ 500 - € 600
		Annual growth of standard and construction prices	5%	5%
	MVM	Offer (deal) price per sq. m.	300€ - 620€	400 € - 800 €
		Annual growth of market comparatives (real deals)	-	-
Industrial properties	RVM	Standard construction prices per sq. m.	€ 200 - € 570	€ 350 - € 650
		Annual growth of standard and construction prices	5%	5%
	MVM	Offer (deal) price per sq. m.	€ 150 - € 400	€ 200 - € 400
		Annual growth of market comparatives (real deals)	-	0%
	MCFCF	Estimated monthly rent per	€ 0.5 - € 4.5	€ 0.75 - € 4.6
		Annual growth of rent rates	3%	1%
		Long-term vacancy	5%	1%
		Rate of return	6% - 8%	6% - 7.5%
Plots (land)	MVM	Offer (deal) price per sq. m.	€ 5 - € 700	€ 7 - € 800
		Annual growth of market comparatives (real deals)	-	-
Commercial properties	MVM	Offer (deal) price per sq. m.	€ 230 - € 951	€ 230 - € 1000
		Annual growth of market comparatives (real deals)	3%	1%
	MCFCF	Estimated monthly rent per sq. m.	€ 2.5 - € 35	€ 10 - € 35
		Annual growth of rent rates	0%	0%
		Long-term vacancy	5% - 10%	5% - 10%
		Rate of return	6.5% - 7.5%	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 “).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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

	As of 31.12.2022	As of 31.12.2021	As of 31.12.2022	As of 31.12.2021
Right-of-use assets	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Buildings	16 640	21 751	16 660	21 847
Vehicles	336	419	336	419
	16 976	**22 170**	**16 996**	**22 266**

	As of 31.12.2022	As of 31.12.2021	As of 31.12.2022	As of 31.12.2021
Lease liabilities	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Current	6 450	8 246	6 450	8 246
Non-current	10 465	13 939	10 482	14 037
	16 915	**22 185**	**16 932**	**22 283**

	As of 31.12.2022	As of 31.12.2021	As of 31.12.2022	As of 31.12.2021
Lease liabilities	SEPARATE	SEPARATE	CONSOLIDATED	CONSOLIDATED
Balance at 1 January 2022	22 185	22 063	22 283	22 160
Cash flows on principal repayment	(8 773)	(9 483)	(8 854)	(9 482)
Adjustment for new/terminated contracts	3 503	9 605	3 503	9 605
Balance at 31 December 2022	**16 915**	**22 185**	**16 932**	**22 283**

			SEPARATE			CONSOLIDATED
Right-of use asset	Buildings	Vehicles	**Total**	Buildings	Vehicles	**Total**
Cost						
As at 1 January 2022	40 594	721	**41 315**	40 808	748	**41 556**
Additions – new lease contracts	6 461	178	**6 639**	6 461	178	**6 639**
Termination of lease contracts	(10 838)	(164)	**(11 002)**	(10 892)	(164)	**(11 056)**
As at 31 December 2022	**36 217**	**735**	**36 952**	**36 377**	**762**	**37 139**
Accumulated depreciation:						
As at 1 January 2022	(18 843)	(302)	**(19 145)**	(18 961)	(329)	**(19 290)**
Charge for 2022	(8 081)	(257)	**(8 338)**	(8 103)	(257)	**(8 360)**
Depreciation/Amortization charged on disposals	7 347	160	**7 507**	7 347	160	**7 507**
As at 31 December 2022	**(19 577)**	**(399)**	**(19 976)**	**(19 717)**	**(426)**	**(20 143)**
Net Book Value as at 1 January 2022	**21 751**	**419**	**22 170**	**21 847**	**419**	**22 266**
Net Book Value as at 31 December 2022	**16 640**	**336**	**16 976**	**16 660**	**336**	**16 996**

			SEPARATE			CONSOLIDATED
Right-of use asset	Buildings	Vehicles	**Total**	Buildings	Vehicles	**Total**
Cost						
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**
Accumulated depreciation:						
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**
Net Book Value as at 31 December 2021	**21 751**	**419**	**22 170**	**21 847**	**419**	**22 266**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

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 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Deferred tax assets:				
Retirement benefit obligations	375	565	375	565
Fixed assets and investment properties	(609)	1 001	(609)	1 001
Provisions for legal cases	124	130	124	130
Other employee benefits	1 481	1 348	1 481	1 348
Other temporary differences	1 420	1 486	1 448	1 611
IFRS 16	(10)	2	(10)	2
Total Deferred tax assets	**2 781**	**4 532**	**2 809**	**4 657**
Deferred tax liabilities:				
Securities – available for sale	(454)	(454)	(454)	(454)
IFRS 16	-	-	-	1
Total Deferred tax liabilities	**(454)**	**(454)**	**(454)**	**(453)**
Recognized in the statement of financial position as follows:				
Deferred tax assets:	**2 327**	**4 078**	**2 355**	**4 204**
Deferred tax liabilities:	-	-	-	**1**

MOVEMENT IN DEFERRED TAXES	SEPARATE As of 31.12.2021	SEPARATE Recognized during the period in profit or loss	SEPARATE Recognized during the period in equity	SEPARATE As of 31.12.2022
Deferred tax assets:				
Retirement benefit obligations	565	46	(236)	**375**
Fixed assets and investment properties	1 001	(1 610)	-	**(609)**
Provisions for legal cases	130	(6)	-	**124**
Other employee benefits	1 348	133	-	**1 481**
Other temporary differences	1 486	(66)	-	**1 420**
IFRS 16	2	(12)	-	**(10)**
Total Deferred tax assets	**4 532**	**(1 515)**	**(236)**	**2 781**
Deferred tax liabilities:				
Financial assets – FVOCI	(454)	-	-	**(454)**
Total Deferred tax liabilities	**(454)**	-	-	**(454)**
	4 078	**(1 515)**	**(236)**	**2 327**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

22. DEFERRED TAX (CONTINUED)

MOVEMENT IN DEFERRED TAXES	CONSOLIDATED As of 31.12.2021	CONSOLIDATED Recognized during the period in profit or loss	CONSOLIDATED Recognized during the period in equity	CONSOLIDATED As of 31.12.2022
Deferred tax assets:				
Retirement benefit obligations	565	46	(236)	**375**
Fixed assets and investment properties	1 001	(1 610)	-	**(609)**
Provisions for legal cases	130	(6)	-	**124**
Other employee benefits	1 348	133	-	**1 481**
Other temporary differences	1 611	(163)	-	**1 448**
IFRS 16	2	(12)	-	**(10)**
Total Deferred tax assets	**4 657**	**(1 612)**	**(236)**	**2 809**
Deferred tax liabilities:				
Financial assets – FVOCI	(454)	-	-	**(454)**
Total Deferred tax liabilities	**(454)**	**-**	**-**	**(454)**
	4 203	**(1 612)**	**(236)**	**2 355**

23. OTHER ASSETS

Non-financial other assets	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Assets acquired through foreclosure proceedings	7 542	10 200	7 542	10 200
Prepaid expenses	2 864	2 161	2 864	2 213
Accrued Income from clients	2 210	1 860	2 210	1 860
Other	1 127	1 016	1 128	2 475
Total non-financial other assets	**13 743**	**15 237**	**13 744**	**16 748**
Total other assets	**13 743**	**15 237**	**13 744**	**16 748**

Assets acquired through foreclosure proceedings	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Buildings	2 650	6 660	2 650	6 660
Land	4 892	3 540	4 892	3 540
Total non-financial assets acquired through foreclosure proceedings	**7 542**	**10 200**	**7 542**	**10 200**

*The disclosed amount of assets acquired through foreclosure proceedings is net of impairments. The related amount for impairments as of 2022 is BGN 107 thousand (2021: BGN 537 thousand).

All amounts are in thousand Bulgarian Levs, unless otherwise stated

24. DEPOSITS FROM BANKS

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Sight deposits	15 606	24 898	15 606	24 898
Time deposits	1 955 203	1 373 491	1 955 203	1 373 491
Other due to banks	27	38	27	38
TOTAL	**1 970 836**	**1 398 427**	**1 970 836**	**1 398 427**

25. DEPOSITS FROM CUSTOMERS

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Individuals	7 906 665	7 175 860	7 906 665	7 175 860
Non-bank financial institutions	850 476	979 557	843 421	979 539
Corporate entities	4 499 802	3 915 097	4 497 967	3 910 674
Government entities	258 726	217 617	258 726	217 617
Other Financial liabilities	16 546	16 163	20 261	17 437
TOTAL	**13 532 215**	**12 304 294**	**13 527 040**	**12 301 127**

26. OTHER BORROWED FUNDS

	Currency	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Credit lines from banks	EUR	370 933	111 712	489 430	191 476
TOTAL		**370 933**	**111 712**	**489 430**	**191 476**

Below is presented a table showing all borrowed funds with their contractual terms and corresponding carrying amounts as of 31 December 2022 and 31 December 2021 on **individual base**:

Counterparty	Description	Contract currency	Contract amount	Date of agreement	Value Date	Date of maturity	Interest rate	As of 31.12.2022	As of 31.12.2021
EIB	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%	8 592	11 046
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
KBC Bank	MREL	Euro	97.79 million BGN /50 million euro/	16.12.2021	16.12.2021	16.12.2027	0.46%	97 810	97 810
KBC Bank	MREL	Euro	117.35 million BGN /60 million euro/	27.09.2022	27.09.2022	16.12.2028	4.58%	117 585	
KBC Bank	MREL	Euro	146.69 million BGN /75 million euro/	15.12.2022	15.12.2022	15.12.2027	3.97%	146 946	
							TOTAL	**370 933**	**111 712**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

26. OTHER BORROWED FUNDS (CONTINUED)

The funding with zero balances for 2022 were prepaid during the year.

Below is presented a table showing all borrowed funds with their contractual terms and corresponding carrying amounts as of 31 December 2022 and 31 December 2021 on **consolidated base**:

Counterparty	Description	Contract currency	Contract amount	Date of agreement	Value Date	Date of maturity	Interest rate	As of 31.12.2022	As of 31.12.2021
EIB	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%	8 592	11 046
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
KBC Bank	MREL	Euro	97.79 million BGN /50 million euro/	16.12.2021	16.12.2021	16.12.2027	0.46%	97 810	97 810
KBC Bank	MREL	Euro	117.35 million BGN /60 million euro/	27.09.2022	27.09.2022	16.12.2028	4.58%	117 585	
KBC Bank	MREL	Euro	146.69 million BGN /75 million euro/	15.12.2022	15.12.2022	15.12.2027	3.97%	146 946	
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	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%	18 750	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%	11 735	15 647
KBC Bank to UBB Factoring	Term loan with principle repayment schedule	Euro	19.59 million BGN /10 million euro/	20.01.2022	20.01.2022	24.01.2025	3M. EURIBOR+0.21%	19 558	
KBC Bank to UBB Factoring	Term loan with principle repayment schedule	Euro	29.34 million BGN /15 million euro/	19.05.2022	19.05.2022	23.05.2025	3M. EURIBOR+0.32%	29 337	
							TOTAL	**489 430**	**191 476**

27. PROVISIONS

a) Provisions for risks and charges

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Provisions for risks and charges				
Provisions for restructuring	3 445	-	3 445	-
Provisions for Legal cases	1 244	1 302	1 244	1 317
Provisions for Off- balance sheet commitment	3 325	3 033	3 322	3 030
TOTAL PROVISIONS FOR RISK AND CHARGES	**8 014**	**4 335**	**8 011**	**4 347**

Provisions for Off- balance sheet position commitment movement	SEPARATE AND CONSOLIDATED Opening balance as of 01.01.2022	Changes due to change in credit risk (net)	Ending balance as of 31.12.2022
Undrawn Credit commitments and Financial Guarantees (Stage 1)	1 970	468	2 438
Undrawn Credit commitments and Financial Guarantees (Stage 2)	1 063	(176)	887
Undrawn Credit commitments and Financial Guarantees (Stage 3)			
TOTAL PROVISIONS FOR OFF-BALANCE SHEET POSITION COMMITMENT	**3 033**	**292**	**3 325**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

27. PROVISIONS (CONTINUED)

b) Retirement benefit obligations

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Present value of unfunded obligations	3 748	5 653	3 748	5 653
	3 748	**5 653**	**3 748**	**5 653**

Amount recognized in profit and loss	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Current service cost	670	178	670	178
Net interest on the net defined benefit liability	105	15	105	15
Total P&L Charge	**775**	**193**	**775**	**193**

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Reconciliation of retirement benefit obligation				
Retirement benefit obligation at the beginning of period	5 653	6 173	5 653	6 173
Current service cost	670	178	670	178
Net interest on the net defined benefit liability	105	15	105	15
Benefits paid directly by the Bank/ Group	(311)	(314)	(311)	(314)
Actuarial gain	(2 369)	(399)	(2 369)	(399)
Retirement benefit obligation at the end of period	**3 748**	**5 653**	**3 748**	**5 653**

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Cumulative amount recognized in the OCI, net of tax	1 133	(998)	1 133	(998)

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Re-measurements				
Liability loss due to changes in assumptions	(2 369)	(399)	(2 369)	(399)
Total amount recognized in OCI over the period	**(2 369)**	**(399)**	**(2 369)**	**(399)**

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Net liability in statement of financial position at the beginning of the period	5 653	6 173	5 653	6 173
Benefits paid directly	(311)	(314)	(311)	(314)
Total expense recognized in the statement of profit or loss	775	193	775	193
Total amount recognized in the OCI	(2 369)	(399)	(2 369)	(399)
Net liability in statement of financial position	**3 748**	**5 653**	**3 748**	**5 653**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

27. PROVISIONS (CONTINUED)

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Assumptions				
Discount rate	1.85%	0.25%	1.85%	0.25%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

The defined benefit obligations above are linked only to obligation of UBB to provide one-off lump sum payment at retirement determined as a certain number of gross salaries based on criteria for the duration of the employment contract of respective employees as per local legislation.

Effect of the change in interest rate	+0.25% (+25 bp)	-0.25% (-0.25 bp)
Effect of the change in the provision allocated as of 31.12.2022 for the retirement benefit obligation	-5.0%	6.0%
expressed in absolute values	(201 184)	220 428
Effect of change in wage increases	1.0%	-1.0%
Effect of the change in the provision allocated as of 31.12.2022 for the retirement benefit obligation	2.0%	-2.0%
expressed in absolute values	80 032	(80 032)
Effect of change in the stages of the dropouts	1.0%	-1.0%
Effect of the change in the provision allocated as of 31.12.2022 for the retirement benefit obligation	-1.0%	1.0%
expressed in absolute values	(41 134)	41 134
Effect of change in stages of the mortality	+0.25% (+25 bp)	-0.25% (-0.25 bp)
Effect of the change in the provision allocated as of 31.12.2022 for the retirement benefit obligation	-1.0%	1.0%
expressed in absolute values	(43 824)	43 824

28. OTHER LIABILITIES

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Other Financial Liabilities				
Dividend payable	56	210	56	210
TOTAL FINANCIAL OTHER LIABILITIES	**56**	**210**	**56**	**210**

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Non-financial other Liabilities				
Payroll related accruals	17 604	16 244	17 758	16 518
Creditors and suppliers	14 049	15 277	14 170	15 386
Accrued expenses and deferred income	6 697	6 732	6 697	6 732
Taxes payable - other than income taxes	1 236	1 149	1 236	1 149
Other	2 504	3 296	2 639	3 349
TOTAL NON-FINANCIAL OTHER LIABILITIES	**42 090**	**42 698**	**42 500**	**43 134**
TOTAL OTHER LIABILITIES	**42 146**	**42 908**	**42 569**	**43 344**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

29. RETAINED EARNINGS

RETAINED EARNINGS	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Retained Earnings				
Accumulated prior years' earnings at beginning of period	1 287 421	1 116 219	1 287 090	1 115 062
Profit for the year	151 502	171 114	152 620	171 945
Other comprehensive income for the year, net of tax	2 361	88	2 361	88
Dividends paid	(171 115)	-	(171 115)	-
Other	69	-	71	(5)
At 31 December	**1 270 238**	**1 287 421**	**1 271 027**	**1 287 090**

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Components of Retained Earnings				
Statutory reserves	672 532	672 532	672 532	672 582
Undistributed profit from previous years	446 204	443 775	445 875	442 563
Profit for the year	151 502	171 114	152 620	171 945
TOTAL	**1 270 238**	**1 287 421**	**1 271 027**	**1 287 090**

30. REVALUATION RESERVE

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Revaluation reserves -FVOCI				
At the beginning of the period	44 414	60 028	44 414	60 028
Fair value changes	(46 171)	(15 614)	(46 171)	(15 614)
TOTAL	**(1 757)**	**44 414**	**(1 757)**	**44 414**

31. 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 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Credit commitments				
Undrawn credit commitments	**2 105 127**	**1 933 588**	**2 270 070**	**2 044 130**
Of which government entities	81 871	25 292	81 871	25 292
Of which credit institutions	14 995	14 672	14 995	14 672
Of which corporate and SME	1 612 566	1 521 572	1 777 509	1 632 114
Of which retail	259 370	261 419	259 370	261 419
Of which other financial institutions	136 325	110 633	136 325	110 633
Guarantees, documentary and commercial letters of credit	**338 872**	**302 705**	**338 872**	**302 705**
Of which corporate and SME	317 434	284 016	317 434	284 016
Of which retail	9 779	10094	9 779	10094
Of which other financial institutions	2 702	1 752	2 702	1 752
Of which other credit institutions	8 957	6 843	8 957	6 843
Letter of credits	**73 648**	**128 426**	**73 648**	**128 426**
TOTAL	**2 517 647**	**2 364 719**	**2 682 590**	**2 475 261**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

31. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

The following table represents commitments per stages:

	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Credit commitments				
Undrawn Credit commitments	**2 105 127**	**1 933 588**	**2 270 070**	**2 044 130**
Of which Stage 1	1 872 215	1 822 677	1 872 215	1 822 677
Of which Stage 2	227 626	110373	392 569	220915
Of which Stage 3	5 286	538	5 286	538
Guarantees, documentary and commercial letters of credit	**338 872**	**302 705**	**338 872**	**302 705**
Of which Stage 1	287 875	259 597	287 875	259 597
Of which Stage 2	43 746	42364	43 746	42364
Of which Stage 3	7 251	744	7 251	744
Letter of Credits	**73 648**	**128 426**	**73 648**	**128 426**
Of which Stage 1	30 160	124 655	30 160	124 655
Of which Stage 2	43 488	3 771	43 488	3 771
Of which Stage 3				
TOTAL	**2 517 647**	**2 364 719**	**2 682 590**	**2 475 261**

32. 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 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Cash in hand	238 719	243 722	238 719	243 722
Current accounts in Central Bank	708 337	747 047	708 337	747 047
Placements with banks with original maturity of up to 3 months	1 157 181	1 905 024	1 157 181	1 905 024
Repo deals with banks up to 3 months	1 585 181	445 637	1 585 181	445 637
TOTAL	**3 689 418**	**3 341 430**	**3 689 418**	**3 341 430**

The minimum reserves with the Central Bank amounting to BGN 1 327 707 thousand as at 31 December 2022 (2021: BGN 1 171 667 thousand) are not included in cash and cash equivalents as they are not freely at the disposal of the Bank.

33. 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 finds (regulatory capital) and
- The total amount of all exposures of UBB to related parties shall not exceed 20% of UBB’s own funds (regulatory capital).

The main credit risk to which UBB is exposed arises out of the loans granted to clients. The amount of credit exposure in this case is determined by the carrying amount of the assets. At the same time UBB is exposed to off-balance sheet credit risk as a result of commitments for granting loans and issuing Letter of Guarantees and Letter of Credits.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk management decisions are made in compliance with the approved risk management principles and risk appetite credit risk management framework, risk appetite 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. In order to provide support for the assessment of the credit risk of the borrower, UBB rates retail and non-retail obligors by using an internal rating model system which provides probabilities of default according to a 12-level rating scale.

UBB uses the output generated by these models to split the non-defaulted loan portfolio into internal (main) rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD and expresses the chance that a customer will default on his obligations towards the bank within the next year. The Bank assign three 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 above the materiality thresholds rules, according to regulatory requirements), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors wherefor which full repayment on maturity is uncertain 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 (non-retail) lending activity there are levels of approving bodies (credit committees) at different levels, depending on the size and the status (performing, non-performing) 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 an 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 in 2022 an average of 228% Liquidity Coverage Ratio (LCR) and average of 166% Net Stable Funding |Ratio (NSFR). 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.

33. 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 31.12.2022 amounted to BGN 0.101 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. UBB realizes the importance of interest rate risk in the banking book and manages it through effective management of assets and liabilities, capital and incomes.

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 sensitivity of net interest incomes (NII) and economic value of equity (EVE) 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. 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 analyzed and reported to LRMC as well as corrective measures to avoid future losses and events are proposed. UBB has implemented and applies the standardized approach for determining the capital requirements for operational risk.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

Business Continuity Management

Business Continuity Management (BCM) is performed in accordance with the Group standards, BCM Framework and GKC BCM. BCM is defined as strategic and tactical ability of an entity to plan and react properly in the event of a serious disruptions, crisis or disasters. BCM focuses on availability i.e. the Recovery Time Objective (RTO) or the amount of time in which business activities need to be operational again following a serious disruption, crisis or disaster. BCM is coordinated by local risk function as the business units are responsible for BCM framework implementation. Business Impact Analyses are prepared for all processes in UBB and for each activity a recovery time objective is defined. For each process a BC coordinator is assigned who has the task to define the critical processes/ activities, 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 2022 UBB continued to monitor and comply with the Local Health Authority measures as well as with the specific instructions of Regional Health Inspections in Bulgaria. In the beginning of April, following relaxation of the COVID-19 measures by the government, UBB Roll-back plan was replaced by Next Normal including 2 scenarios depending on Low level of Covid infections (New Way of Working) or High level of Covid infections (Measures to be implemented in case of new COVID wave).

34. CREDIT RISK

Credit risk is summarized as follows:

Maximum exposure to credit risk before collateral and other credit enhancements

CREDIT RISK	As at 31.12.2022 Gross maximum exposure	As at 31.12.2022 Net maximum exposure	As at 31.12.2022 Gross maximum exposure	As at 31.12.2022 Net maximum exposure
	SEPARATE	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Exposure				
Balances with Central bank	2 274 763	2 274 763	2 274 763	2 274 763
Loans and advances to banks	1 166 488	1 166 303	1 166 488	1 166 303
Loans and advances to customers, net	8 596 455	8 417 347	8 718 312	8 535 681
Derivative financial instruments	13 433	13 433	13 433	13 433
Financial assets at fair value through P/L	5 233	5 233	5 233	5 233
Financial assets at FVOCI	592 009	591 912	592 009	591 912
Securities at AC	3 206 291	3 205 772	3 206 291	3 205 772
Total balance sheet items	**15 854 672**	**15 674 763**	**15 976 529**	**15 793 097**
Commitments	2 105 127	2 105 127	2 270 070	2 270 070
Total off-balance sheet positions	**2 105 127**	**2 105 127**	**2 270 070**	**2 270 070**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK (CONTINUED)

CREDIT RISK	As at 31.12.2021 Gross maximum exposure	As at 31.12.2021 Net maximum exposure	As at 31.12.2021 Gross maximum exposure	As at 31.12.2021 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
Total balance sheet items	**14 984 279**	**14 793 197**	**15 069 568**	**14 875 366**
Commitments	1 933 588	1 933 588	2 044 130	2 044 130
Total off-balance sheet positions	**1 933 588**	**1 933 588**	**2 044 130**	**2 044 130**

Quality of loans and advances and collateral

SEPARATE	**Consumer loans**	**Mortgage loans**	**Corporate and SME loans**	**Financial institutions**	**Total**
Unsecured loans	1 407 037	36 275	330 160	49 818	**1 823 290**
Loans secured with:					
Residential Real Estate	205	2 063 274	52 229	2 487	**2 118 195**
Commercial Real Estate	3	10 969	1 970 397	5 322	**1 986 691**
Cash	1 172	6	9 957	-	**11 135**
Other collaterals	227 958	971	2 345 018	83 197	**2 657 144**
Total loans at 31.12.2022	**1 636 375**	**2 111 495**	**4 707 761**	**140 824**	**8 596 455**

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**
Total loans at 31.12.2021	**1 436 760**	**1 726 274**	**4 019 683**	**100 547**	**7 283 264**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK (CONTINUED)

CONSOLIDATED	Consumer loans	Mortgage loans	Corporate and SME loans	Financial institutions	Total
Unsecured loans	1 407 037	36 275	438 377	49 818	**1 931 507**
Loans secured with:					
Residential Real Estate	205	2 063 274	52 229	2 487	**2 118 195**
Commercial Real Estate	3	10 969	1 971 083	5 322	**1 987 377**
Cash	1 172	6	22 911	-	**24 089**
Other collaterals	227 958	971	2 345 018	83 197	**2 657 144**
Total loans at 31.12.2022	**1 636 375**	**2 111 495**	**4 829 618**	**140 824**	**8 718 312**

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**
Total loans at 31.12.2021	**1 436 760**	**1 726 274**	**4 104 972**	**100 547**	**7 368 553**

The table below provides information about UBB's exposure to credit risk as of 31 December 2022 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 2022 and 31 December 2021 is presented in the table below:

SEPARATE AND CONSOLIDATED 31 December 2022	AAA to A-	BBB+ to B-	Not rated	Total
Government Bonds	908 209	2 277 875	-	**3 186 084**
Bank Bonds		19 688	-	**19 688**
Cash with BNB and resources provided to banks	1 771 755	3 254 492	-	**5 026 247**
Total	**2 679 964**	**5 552 055**	-	**8 232 019**

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**
Total	**1 762 412**	**5 613 461**	**1 101**	**7 376 974**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK (CONTINUED)

Loans that are overdue ,Stage 1 and Stage 2 at the end of 2022 and 2021 respectively are presented in the table below:

SEPARATE	As of 31.12.2022 Gross carrying amount	As of 31.12.2022 Gross carrying amount	As of 31.12.2022 Gross carrying amount
	1 to 30 days	31 to 90 days	**Total**
Consumer loans	27 018	7 332	**34 350**
Mortgage loans	11 061	2 448	**13 509**
Large corporate clients	16 306	3 998	**20 304**
Small and medium sized enterprises	83 397	5 797	**89 194**
Total	**137 782**	**19 575**	**157 357**

CONSOLIDATED	As of 31.12.2022 Gross carrying amount	As of 31.12.2022 Gross carrying amount	As of 31.12.2022 Gross carrying amount
	1 to 30 days	31 to 90 days	**Total**
Consumer loans	26 332	9 780	**36 112**
Mortgage loans	11 061	2 448	**13 509**
Large corporate clients	16 306	3 998	**20 304**
Small and medium sized enterprises	83 397	5 797	**89 194**
Total	**137 096**	**22 023**	**159 119**

SEPARATE	As of 31.12.2021 Gross carrying amount	As of 31.12.2021 Gross carrying amount	As of 31.12.2021 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**
Total	**68 327**	**16 426**	**84 753**

CONSOLIDATED	As of 31.12.2021 Gross carrying amount	As of 31.12.2021 Gross carrying amount	As of 31.12.2021 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**
Total	**68 327**	**19 525**	**87 852**

Loans that are stage 1 split by PD class as of the end of 2022 and 2021 respectively are presented in the table below:

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK (CONTINUED)

SEPARATE AND CONSOLIDATED	As of 31.12.2022	As of 31.12.2022	As of 31.12.2022	As of 31.12.2022
PD	Mortgage	Consumer	Corporate	Total
1	746 351	31 559	833 084	1 610 994
2	397 651	347 713	49 604	794 968
3	337 104	512 515	164 031	1 013 650
4	281 003	219 879	537 442	1 038 324
5	91 880	132 223	1 485 334	1 709 437
6	32 083	79 110	1 032 743	1 143 936
7	9 990	35 161	589 200	634 351
8	3 268	19 513	40 461	63 242
Gross Carrying Amount/Outs. Balance Total	**1 899 330**	**1 377 673**	**4 731 899**	**8 008 902**
ECL	**(60)**	**(8 643)**	**(6 499)**	**(15 202)**
Net loans	**1 899 270**	**1 369 030**	**4 725 400**	**7 993 700**

SEPARATE AND CONSOLIDATED	As of 31.12.2021	As of 31.12.2021	As of 31.12.2021	As of 31.12.2021
PD	Mortgage	Consumer	Corporate	Total
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
Gross Carrying Amount/Outs. Balance Total	**1 487 198**	**1 284 027**	**4 166 974**	**6 938 199**
ECL	**(89)**	**(2 841)**	**(5 577)**	**(8 507)**
Net loans	**1 487 109**	**1 281 186**	**4 161 397**	**6 929 692**

The gross carrying amount of loans that are overdue and which have been impaired as of 31 December 2022 and 2021 is presented in the tables below:

Impaired loans

SEPARATE	As of 31.12.2022 Gross carrying amount			
	Less than 90 days	91 to 180 days	Over 180 days	**Total**
Consumer loans	16 141	8 131	35 825	**60 097**
Mortgage loans	24 266	1 268	15 356	**40 890**
Large corporate clients	7 770	-	-	**7 770**
Small and medium sized enterprises	78 142	14 816	80 376	**173 334**
Total	**126 319**	**24 215**	**131 557**	**282 091**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK (CONTINUED)

CONSOLIDATED	As of 31.12.2022 Gross carrying amount			
	Less than 90 days	91 to 180 days	Over 180 days	**Total**
Consumer loans	16 141	8 131	35 825	**60 097**
Mortgage loans	24 266	1 268	15 356	**40 890**
Large corporate clients	7 770	-	-	**7 770**
Small and medium sized enterprises	78 142	14 816	83 079	**176 037**
Total	**126 319**	**24 215**	**134 260**	**284 794**

SEPARATE	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	**46 498**
Mortgage loans	41 221	4 913	42 537	**88 671**
Large corporate clients	3 292	-	-	**3 292**
Small and medium sized enterprises	114 392	3 987	175 127	**293 506**
Total	**176 201**	**17 173**	**238 593**	**431 967**

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	**46 498**
Mortgage loans	41 221	4 913	42 537	**88 671**
Large corporate clients	3 292	-	-	**3 292**
Small and medium sized enterprises	114 392	3 987	179 272	**297 651**
Total	**176 201**	**17 173**	**242 738**	**436 112**

During the course of 2022 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 Update of Credit risk standards on loan origination for Corporate and SMEEBA 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 Credit risk standards on forbearance measures on Collateral Management.
- Introducing Business rules on how to determine the correct activity code

The Bank has adopted the ESG rules and introduced the necessity to provide an ESG assessment in the underwriting process. The Bank has amended regularly amends the rules and policies on Sustainable and Responsible lending and the ESG assessment and reporting rules. UBB has improved the internal process for deciding and communicating the different changes in the lending policies and rules.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK (CONTINUED)

Forborne Loans net of allowance for impairment by product line:

	As at 31.12.2022	As at 31.12.2021	As at 31.12.2022	As at 31.12.2021
Forborne Loans	**SEPARATE**	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Consumer	18 513	26 666	18 513	26 666
Mortgage	24 229	45 318	24 229	45 318
SME Loans	190 610	244 330	190 610	244 330
Corporate Loans	33 363	36 516	33 363	36 516
Total	**266 715**	**352 830**	**266 715**	**352 830**

Industry Concentration risk

Analysis by industries net of impairments	Year ended 31.12.2022	Year ended 31.12.2021	Year ended 31.12.2022	Year ended 31.12.2021
	SEPARATE	**SEPARATE**	**CONSOLIDATED**	**CONSOLIDATED**
Individuals and households	3 670 676	3 095 128	3 670 676	3 095 128
Industry	1 574 936	1 318 745	1 650 476	1 318 745
Trade and services	1 403 480	1 095 443	1 484 173	1 095 443
Agriculture	389 051	312 608	389 051	312 608
Electricity and heat	279 222	232 968	279 222	232 968
Transportation	248 520	227 037	256 799	227 037
Construction	194 248	155 388	194 248	269 116
Financial and Insuarance companies	143 324	115 157	94 324	83 598
Other	124 997	186 552	125 097	186 552
Real estate	114 592	119 046	114 592	119 046
Public sector	87 932	80 772	87 932	80 772
IT and comunucations	77 608	74 472	78 845	74 472
Water suplly	51 491	51 152	52 748	51 152
Hotel management	38 260	21 307	38 260	21 307
Mining	19 010	6 584	19 238	6 584
Total	**8 417 347**	**7 092 359**	**8 535 681**	**7 174 528**

Counterparty concentration risk

The next table presents the information of the large exposure of UBB as for 31 December 2022 and 2021:

SEPARATE	As of 31.12.2022		As of 31.12.2021	
	Amount	% of Equity	Amount	% of Equity
The largest total exposure	170 603	10.84%	133 012	8.14%
Total amount of five largest exposures	**481 347**	**30.59%**	**337 752**	**20.66%**

CONSOLIDATED	As of 31.12.2022		As of 31.12.2021	
	Amount	% of Equity	Amount	% of Equity
The largest total exposure	170 603	10.84%	133 012	8.14%
Total amount of five largest exposures	**481 347**	**30.58%**	**337 752**	**20.67%**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. CREDIT RISK (CONTINUED)

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 2022 and 31 December 2021 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	Performing	Non-performing
Loans and advances subject to EBA-compliant moratoria at 31.12.2022	**316 067**	**281 996**	**34 071**	**(10 716)**	**(3 236)**	**(7 480)**
of which: Households	96 067	85 902	10 165	(8 142)	(1 557)	(6 585)
of which: Non-financial corporations	219 999	196 093	23 906	(2 575)	(1 680)	(895)

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
Loans and advances subject to EBA-compliant moratoria at 31.12.2021	**405 651**	**365 158**	**40 493**	**(12 681)**	**(5 820)**	**(6 861)**
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)

b) Information for other loans and advances subject to COVID-19-related forbearance measures and of newly originated loans as at 31 December 2022 and 31 December 2021 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
Other loans and advances subject to COVID-19-related forbearance measures at 31.12.2022	**21 294**	**13 708**	**7 586**	**(3 917)**	**(402)**	**(3 515)**
of which: Households	16 583	9 443	7 140	(3 873)	(361)	(3 512)
of which: Non-financial corporations	4 711	4 265	446	(44)	(41)	(3)

All amounts are in thousand Bulgarian Levs, unless otherwise stated

34. 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	ELC on Performing	ELC on Non-performing
Other loans and advances subject to COVID-19-related forbearance measures at 31.12.2021	**71 658**	**62 449**	**9 209**	**(3 310)**	**(1 363)**	**(1 947)**
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)

c) Information for advances subject to public guarantee schemes in the context of the COVID-19 crisis as at 31 December 2022 and 31 December 2021 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	Perfor ming	Non-performin g
Newly originated loans and advances subject to public guarantee schemes at 31.12.2022	**107 396**	**105 348**	**2 048**	**(1 091)**	**(859)**	**(232)**
of which: Households	28 712	27 500	1 212	(823)	(610)	(213)
of which: Non-financial corporations	78 682	77 846	836	(268)	(249)	(19)

SEPARATE AND CONSOLIDATED	Gross carrying amount	Performing	Non-performing	Accumulated impairment, accumulated negative changes in fair value due to credit risk	Perfor ming	Non-performin g
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)	-

35. MARKET RISK

Foreign currency risk

The tables below summarize the exposure to foreign currency exchange rate risk as of 31 December 2022 and 2021. Included in the table are UBB's assets and liabilities at carrying amounts in thousands BGN categorized by currency.

SEPARATE

Currency analysis 31 December 2022	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	19 727	9 189	2 239 448	6 399	**2 274 763**
Due from banks	2 420 951	230 031	63 678	36 824	**2 751 484**
Loans and advances to customers, net	2 146 539	86 214	6 184 514	80	**8 417 347**
Financial Assets through PL	15	-	5 218	-	**5 233**
Derivative financial instruments	8 729	-	4 704	-	**13 433**
Financial Assets at FVOCI	427 978	15 821	148 113	-	**591 912**
Securities at AC	1 633 653	358 230	1 213 889	-	**3 205 772**
Investments in associates	-	-	15 022	-	**15 022**
Intangible assets	19 220	687	755	-	**20 662**
Fixed assets and Right-of-use Assets	2 209	827	108 004	-	**111 040**
Investment property	-	-	98 380	-	**98 380**
Deferred tax assets and corporate income tax receivables	-	-	8 487	-	**8 487**
Other assets	5 298	22	8 422	1	**13 743**
TOTAL ASSETS	**6 684 319**	**701 021**	**10 098 634**	**43 304**	**17 527 278**

LIABILITIES	EUR	USD	BGN	Other	Total
Due to banks	1 965 215	-	5 621	-	**1 970 836**
Due to customers	3 753 183	896 906	8 743 556	138 570	**13 532 215**
Derivative financial instruments	3 590	-	5 371	-	**8 961**
Long term borrowings	370 933	-	-	-	**370 933**
Provisions	1 253	44	10 464	1	**11 762**
Lease liabilities	-	-	16 915	-	**16 915**
Other liabilities	7 668	775	33 706	(3)	**42 146**
TOTAL LIABILITIES	**6 101 842**	**897 725**	**8 815 633**	**138 568**	**15 953 768**
TOTAL EQUITY	**-**	**-**	**1 573 510**	**-**	**1 573 510**
NET BALANCE SHEET POSITION	**582 477**	**(196 704)**	**1 283 001**	**(95 264)**	**1 573 510**
NET OFF-BALANCE SHEET POSITION	**(626 248)**	**200 511**	**329 707**	**95 514**	**(515)**

SEPARATE

Currency analysis 31 December 2021	EUR	USD	BGN	Other	Total
ASSETS					
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**
TOTAL ASSETS	**6 507 165**	**272 043**	**8 667 325**	**83 744**	**15 530 277**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. MARKET RISK (CONTINUED)

Foreign currency risk (Continued)

LIABILITIES	EUR	USD	BGN	Other	Total
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**
TOTAL LIABILITIES	**5 105 800**	**796 203**	**7 855 120**	**138 421**	**13 895 544**
TOTAL EQUITY	-	-	**1 634 733**	-	**1 634 733**
NET BALANCE SHEET POSITION	**1 401 365**	**(524 160)**	**812 205**	**(54 677)**	**1 634 733**
NET OFF-BALANCE SHEET POSITION	**(1 379 431)**	**475 400**	**833 114**	**95 894**	**24 977**

CONSOLIDATED

Currency analysis **31 December 2022**	EUR	USD	BGN	Other	Total
ASSETS					
Cash and balances with central banks	19 727	9 189	2 239 448	6 399	**2 274 763**
Due from banks	2 420 951	230 031	63 678	36 824	**2 751 484**
Loans and advances to customers, net	2 146 539	86 214	6 302 848	80	**8 535 681**
Financial Assets through PL	15	-	5 218	-	**5 233**
Derivative financial instruments	8 729	-	4 704	-	**13 433**
Financial Assets at FVOCI	427 978	15 821	148 113	-	**591 912**
Securities at AC	1 633 653	358 230	1 213 889	-	**3 205 772**
Investments in associates	-	-	3 839	-	**3 839**
Intangible assets	19 220	687	773	-	**20 680**
Fixed assets and Right-of-use Assets	2 209	827	108 064	-	**111 100**
Investment property	-	-	105 670	-	**105 670**
Deferred tax assets and corporate income tax receivables	-	-	8 515	-	**8 515**
Other assets	5 298	22	8 423	1	**13 744**
TOTAL ASSETS	**6 684 319**	**701 021**	**10 213 182**	**43 304**	**17 641 826**

LIABILITIES	EUR	USD	BGN	Other	Total
Due to banks	1 965 215	-	5 621	-	**1 970 836**
Due to customers	3 753 183	896 906	8 738 381	138 570	**13 527 040**
Derivative financial instruments	3 590	-	5 371	-	**8 961**
Long term borrowings	489 430	-	-	-	**489 430**
Provisions	1 253	44	10 461	1	**11 759**
Lease liabilities	-	-	16 932	-	**16 932**
Other liabilities	7 668	775	34 129	(3)	**42 569**
TOTAL LIABILITIES	**6 220 339**	**897 725**	**8 810 895**	**138 568**	**16 067 527**
TOTAL EQUITY	**-**	**-**	**1 574 299**	**-**	**1 574 299**
NET BALANCE SHEET POSITION	**463 980**	**(196 704)**	**1 402 287**	**(95 264)**	**1 574 299**
NET OFF-BALANCE SHEET POSITION	**(626 248)**	**200 511**	**329 707**	**95 514**	**(515)**

CONSOLIDATED

Currency analysis **31 December 2021**	EUR	USD	BGN	Other	Total
ASSETS					
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**
TOTAL ASSETS	**6 507 165**	**272 043**	**8 744 164**	**83 744**	**15 607 116**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. MARKET RISK (CONTINUED)

Foreign currency risk (Continued)

LIABILITIES	EUR	USD	BGN	Other	Total
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**
TOTAL LIABILITIES	**5 160 564**	**796 203**	**7 877 526**	**138 421**	**13 972 714**
TOTAL EQUITY	**-**	**-**	**1 634 402**	**-**	**1 634 402**
NET BALANCE SHEET POSITION	**1 346 601**	**(524 160)**	**866 638**	**(54 677)**	**1 634 402**
NET OFF-BALANCE SHEET POSITION	**(1 379 431)**	**475 400**	**833 114**	**95 894**	**24 977**

Interest rate risk

UBB measures the net interest incomes (NII) and 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.

UBB interest rate risk relating to financial instruments based on next re-pricing date is summarized as follows:

SEPARATE

31 December 2022	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Cash and Accounts in Central Bank	-	-	2 274 763	**2 274 763**
Deposits placed with banks (incl. reverse repos)	2 193 730	557 754	-	**2 751 484**
Financial assets trading and at FVOCI	578 222	-	13 690	**591 912**
Securities at AC	3 205 772	-	-	**3 205 772**
Loans and advances to clients	453 041	7 964 306	-	**8 417 347**
Other (Real Estate. Derivatives, other assets)	-	13 433	272 567	**286 000**
Total assets	**6 430 765**	**8 535 493**	**2 561 020**	**17 527 278**
Liabilities				
Deposits from banks and Other borrowed funds	2 341 769	-	-	**2 341 769**
Deposits from clients	13 532 215	-	-	**13 532 215**
Other (Derivatives, other liabilities)	-	8 961	70 823	**79 784**
Total liabilities	**15 873 984**	**8 961**	**70 823**	**15 953 768**
Interest Rate Mismatch	(9 443 219)	8 526 532	2 490 197	**1 573 510**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

35. MARKET RISK (CONTINUED)

Interest rate risk (continued)

CONSOLIDATED

31 December 2022	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Cash and Accounts in Central Bank	-	-	2 274 763	**2 274 763**
Deposits placed with banks (incl. reverse repos)	2 193 730	557 754	-	**2 751 484**
Financial assets trading and at FVOCI	578 222	-	13 690	**591 912**
Securities at AC	3 205 772	-	-	**3 205 772**
Loans and advances to clients	453 041	8 082 640	-	**8 535 681**
Other (Real Estate. Derivatives, other assets)	-	13 433	268 781	**282 214**
Total assets	**6 430 765**	**8 653 827**	**2 557 234**	**17 641 826**
Liabilities				
Deposits from banks and Other borrowed funds	2 419 194	41 072	-	**2 460 266**
Deposits from clients	13 527 040	-	-	**13 527 040**
Other (Derivatives, other liabilities)	-	8 961	71 260	**80 221**
Total liabilities	**15 946 234**	**50 033**	**71 260**	**16 067 527**
Interest Rate Mismatch	(9 515 469)	8 603 794	2 485 974	**1 574 299**

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 2021	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Cash and Accounts in Central Bank	-	-	2 162 436	**2 162 436**
Deposits placed with banks (incl. reverse repos)	1 343 538	668 482	546 785	**2 558 805**
Financial assets trading and at FVOCI	720 544	-	17 209	**737 753**
Securities at AC	2 655 733	-	-	**2 655 733**
Loans and advances to clients	310 637	6 781 722	-	**7 092 359**
Other (Real Estate. Derivatives, other assets)	-	25 002	298 189	**323 191**
Total assets	**5 030 452**	**7 475 206**	**3 024 619**	**15 530 277**
Liabilities				
Deposits from banks and Other borrowed funds	1 496 285	13 854	-	**1 510 139**
Deposits from clients	12 304 294	-	-	**12 304 294**
Payables on repo agreements	-	-	-	-
Other (Derivatives, other liabilities)	-	6 030	75 081	**81 111**
Total liabilities	**13 800 579**	**19 884**	**75 081**	**13 895 544**
Interest Rate Mismatch	(8 770 127)	7 455 322	2 949 538	**1 634 733**

35. MARKET RISK (CONTINUED)

Interest rate risk (continued)

CONSOLIDATED

31 December 2021	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Cash and Accounts in Central Bank	-	-	2 162 436	**2 162 436**
Deposits placed with banks (incl. reverse repos)	1 343 461	668 482	546 862	**2 558 805**
Financial assets trading and at FVOCI	720 544	-	17 209	**737 753**
Securities at AC	2 655 733	-	-	**2 655 733**
Loans and advances to clients	310 637	6 863 891	-	**7 174 528**
Other (Real Estate. Derivatives, other assets)	-	25 002	292 859	**317 861**
Total assets	**5 030 375**	**7 557 375**	**3 019 366**	**15 607 116**
Liabilities				
Deposits from banks and Other borrowed funds	1 521 285	68 618	-	**1 589 903**
Deposits from clients	12 301 127	-	-	**12 301 127**
Payables on repo agreements	-	-	-	-
Other (Derivatives, other liabilities)	-	6 030	75 654	**81 684**
Total liabilities	**13 822 412**	**74 648**	**75 654**	**13 972 714**
Interest Rate Mismatch	(8 792 037)	7 482 727	2 943 712	**1 634 402**

The table below provides information of net interest income sensitivity and the sensitivity of equity as at 31.12.2022 and 31.12.2021 assuming reasonably change in interest rates, ceteris paribus:

31 December 2022	**in `000 BGN**	**in `000 BGN**
Increase in basis point	**Sensitivity of net interest income**	**Sensitivity of equity**
100/ (-100)	(7 668)/ (-10 297)	(-71 852)/ (-8 630)
200/ (-200)	(17 399)/ (-17 593)	(-143 706)/ (-17 260)

31 December 2021	**in `000 BGN**	**in `000 BGN**
Increase in basis point	**Sensitivity of net interest income**	**Sensitivity of equity**
100/ (-100)	20 250/ (-37 389)	20 250/ (-37 389)
200/ (-200)	41 674/ (-25 903)	(-9 432)/ 26 654

The Net Interest Income Sensitivity for December 2022 and December 2021 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.

36. 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. LIQUIDITY RISK (CONTINUED)

SEPARATE	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
MATURITY ANALYSIS						
31 December 2022						
ASSETS						
TOTAL ASSETS						
	3 487 860	1 537 897	1 516 029	6 704 978	4 280 514	**17 527 278**
LIABILITIES	**3 487 860**	**1 537 897**	**1 516 029**	**6 704 978**	**4 280 514**	**17 527 278**
Due to banks and payables under repo agreements	1 286 295	684 541	-	-	-	**1 970 836**
Due to customers	12 042 405	352 113	1 097 805	39 892	-	**13 532 215**
Derivative financial instruments	8 961	-	-	-	-	**8 961**
Other borrowed funds	-	-	-	8 592	362 341	**370 933**
Lease liabilities (IFRS 16)	768	2 248	5 272	8 423	204	**16 915**
Other liabilities	53 908	-	-	-	-	**53 908**
TOTAL LIABILITIES	**13 392 337**	**1 038 902**	**1 103 077**	**56 907**	**362 545**	**15 953 768**
Contingent liabilities	2 517 647	-	-	-	-	**2 517 647**

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 2022						
ASSETS						
TOTAL ASSETS	3 487 925	1 537 897	1 526 191	6 809 299	4 280 514	**17 641 826**
	3 487 925	**1 537 897**	**1 526 191**	**6 809 299**	**4 280 514**	**17 641 826**
LIABILITIES						
Due to banks and payables under repo agreements	1 286 295	684 541	-	-	-	**1 970 836**
Due to customers	12 037 230	352 113	1 097 805	39 892	-	**13 527 040**
Derivative financial instruments	8 961	-	-	-	-	**8 961**
Other borrowed funds	-	-	10 162	116 927	362 341	**489 430**
Lease liabilities (IFRS 16)	768	2 248	5 272	8 440	204	**16 932**
Other liabilities	54 328	-	-	-	-	**54 328**
TOTAL LIABILITIES	**13 387 582**	**1 038 902**	**1 113 239**	**165 259**	**362 545**	**16 067 527**
Contingent liabilities	2 682 590	-	-	-	-	**2 682 590**

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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. LIQUIDITY RISK (CONTINUED)

SEPARATE	Subject to notice and up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years and non-stated maturity	Total
MATURITY ANALYSIS						
31 December 2021						
ASSETS	3 193 055	1 422 773	1 313 640	5 250 316	4 350 493	**15 530 277**
TOTAL ASSETS	**3 193 055**	**1 422 773**	**1 313 640**	**5 250 316**	**4 350 493**	**15 530 277**
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
TOTAL LIABILITIES	**11 475 320**	**1 175 430**	**1 066 233**	**70 787**	**107 774**	**13 895 544**
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**
TOTAL ASSETS	**3 218 057**	**1 422 773**	**1 313 640**	**5 250 316**	**4 402 330**	**15 607 116**
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**
TOTAL LIABILITIES	**11 472 628**	**1 175 430**	**1 076 394**	**140 388**	**107 874**	**13 972 714**
Contingent liabilities	2 475 261	-	-	-	-	**2 475 261**

37. 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.

SEPARATE		2022		2021
	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS				
Cash and balances with the Central Bank	2 274 763	2 274 763	2 162 436	2 162 436
Due from banks	2 751 484	2 751 484	2 558 805	2 558 805
Investments at amortized cost	3 205 772	2 771 967	2 655 733	2 743 793
Loans and advances to customers, net	8 417 347	8 433 512	7 092 359	7 120 063
TOTAL ASSETS	**16 649 366**	**16 231 726**	**14 469 333**	**14 585 097**
LIABILITIES				
Due to customers	13 532 215	13 531 651	12 304 294	12 304 255
Other borrowed funds	370 933	373 161	111 712	112 215
TOTAL LIABILITIES	**13 903 148**	**13 904 812**	**12 416 006**	**12 416 470**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

37. FAIR VALUE MEASUREMENT (CONTINUED)

Financial instruments not measured at fair value (continued)

CONSOLIDATED		2022		2021
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
ASSETS				
Cash and balances with the Central Bank	2 274 763	2 274 763	2 162 436	2 162 436
Due from banks	2 751 484	2 751 484	2 558 805	2 558 805
Investments at amortized cost	3 205 772	2 771 967	2 655 733	2 743 793
Loans and advances to customers, net	8 535 681	8 551 846	7 174 528	7 202 232
TOTAL ASSETS	**16 767 700**	**16 350 060**	**14 551 502**	**14 667 266**
LIABILITIES				
Due to customers	13 527 040	13 526 476	12 301 127	12 301 088
Other borrowed funds	489 430	491 658	191 476	191 979
TOTAL LIABILITIES	**14 016 470**	**14 018 134**	**12 492 603**	**12 493 067**

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2022 and 2021:

- 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 2.

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.
Transfers of financial instruments from Level 1 to Level 2 occurred for the year ended December 31, 2022 and 2021.
Level 3 financial instruments at December 31, 2022 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 valuators 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, 2022 and 2021.

37. FAIR VALUE MEASUREMENT (CONTINUED)

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.

38. 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 as of December 2022 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 not less than 17.75% on individual basis and consolidated basis and tier-one capital adequacy of not less than 15.38% on individual basis and on consolidated basis.

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 1% countercyclical buffer. On individual and consolidated basis 1.5% Pillar II requirement and 1% Pillar II Guidance are required additionally.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. CAPITAL AND CAPITAL BASE (CONTINUED)

UBB has complied with the regulatory requirements of minimum capital adequacy for 2022 and for 2021. 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 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Paid up Capital Instruments	93 838	93 838	93 838	93 838
Reserves incl. retained earnings	1 328 794	1 326 364	1 328 464	1 325 204
Other comprehensive income	(624)	43 416	(623)	43 415
Common Equity Tier I deductions	(48 214)	(26 228)	(48 239)	(26 859)
Common Equity Tier I Capital (CET1)	1 373 794	1 437 390	1 373 440	1 435 598
Total Tier I Capital	**1 373 794**	**1 437 390**	**1 373 440**	**1 435 598**
Additional deductions from Tier I and Tier II Equity				
Total Regulatory Capital (own funds)	1 373 794	1 437 390	1 373 440	1 435 598
Common Equity Tier 1 Capital ratio	18.64%	21.24%	18.29%	20.91%
Tier 1 Capital ratio	18.64%	21.24%	18.29%	20.91%
Total capital ratio	**18.64%**	**21.24%**	**18.29%**	**20.91%**
Surplus (+)/Deficit (-) of total capital	**784 273**	**896 077**	**772 566**	**886 353**

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 2022, and 31 December 2021, the capital requirements for credit market and operational risks are as follows:

Risk Weighted Assets	As of 31.12.2022 SEPARATE	As of 31.12.2021 SEPARATE	As of 31.12.2022 CONSOLIDATED	As of 31.12.2021 CONSOLIDATED
Credit Risk including exposures to:	6 688 333	6 071 491	6 808 141	6 169 670
Central governments or central banks	8 956	20 803	8 956	20 803
Regional governments or local authorities	31 518	16 997	31 518	16 997
Public sector entities	1 281	2 012	1 281	2 012
Institutions	565 424	715 409	565 428	715 409
Corporates	2 859 895	2 344 098	2 979 857	2 439 201
Retail	1 654 846	1 410 533	1 661 344	1 421 556
Secured by mortgages on immovable property	1 095 258	937 734	1 095 424	937 734
Exposures in default	178 148	309 931	178 205	311 597
Collective investments undertakings (CIU)				
Equity	37 676	45 405	23 288	25 749
Other items	255 331	268 569	262 840	278 612
Operational Risk	657 238	666 538	679 063	667 500
Market Risk	23 438	28 388	23 451	28 388
TOTAL RISK EXPOSURE AMOUNT	**7 369 009**	**6 766 417**	**7 510 655**	**6 865 558**

All amounts are in thousand Bulgarian Levs, unless otherwise stated

38. CAPITAL AND CAPITAL BASE (CONTINUED)

Separate and consolidated basis of preparation:

UBB's separate capital position exceeds the regulatory minimum. The total capital adequacy as of December 31, 2022 as per CRD IV regulatory framework amounts to 18.64% (based on total Regulatory Capital on individual basis at BGN 1 374 million) and Tier 1 capital adequacy amounts to 18.64%. UBB's consolidated capital position exceeds the regulatory minimum. The total capital adequacy as of December 31, 2022 as per CRD IV regulatory framework amounts to 18.29% (based on total Regulatory Capital on consolidated basis at BGN 1 373 million) and Tier 1 capital adequacy amounts to 18.29%.

39. 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 amount of the remuneration of the members of the management and supervisory bodies of UBB for the financial year 2022 is BGN BGN 2 637 thousand on individual base and 2 888 thousand on consolidated base (2021: BGN 2 858 thousand on individual and BGN 3 202 thousand on consolidated base).

Amounts owed to and from companies of the KBC Bank Group and the related income and expense are as follows: As of 31 December 2022, UBB has performed transactions with the following related parties:

As of 31 December 2022 – Separate	KBC Bank NV	KBC Group	Subsidiaries companies	Associate companies
Loans and advances from clients (agreed int rate from -0.31% to 15.90%, weighted average int rate 3.90%)*	840 620	753	5 466	-
Deposits placed (agreed int rate from -2.25% to 4.90%, weighted average int rate 4.82%)*	186 574	-	-	-
Receivables on repo agreements (agreed int rate from 0.25% to 2.0%, weighted average int rate 1.49%)*	1 585 181	-	-	-
Other demand deposits due to banks	96 843	-	-	-
Derivatives held for trading- assets	7 907	-	-	-
Derivatives held for hedging- assets	5 351	-	-	
Other assets	-	2,210	30	-
Right of use assets	-	489		-
Total Assets	**2 722 476**	**3 452**	**5 496**	-
Deposits from Banks - Time Deposits (agreed int rate from 1.53% to 2.18%, weighted int rate 1.93%) *	1 955 203	-	-	-
Deposits from Banks - Sight Deposits	14 721	-	-	-
Funds attracted from clients (agreed int rate 0%, weighted average int rate 0%) *	-	79 986	8 890	3 960
Other borrowed funds (agreed int rate from 0.46% to 4.58%, weighted average int rate 3.00%) *	362 342	-	-	-
Derivatives held for trading – liability	1 539	-	-	-
Other liabilities	13	543	-	-
Leasing liabilities	-	490	-	-
Total Liabilities	**2 333 818**	**81 019**	**8 890**	**3 960**
Interest income	19 249	251	417	-
Fee and commission income	649	24 575	2	1
Other income	-	5	80	-
Rental income	-	386	96	-
Total income	**19 898**	**25 217**	**595**	**1**
Interest expense	(15 906)	(2 837)	-	-
Fee and commission expenses	(455)	(858)	-	-
Administrative expenses	(8 328)	(11 824)	(743)	(2 042)
Other expenses	-	(33)	-	-
Interest expenses on lease liabilities	-	2	-	-
Total Expenses	**(24 689)**	**(15 550)**	**(743)**	**(2 042)**
Net expense from interest rate derivatives	4 217	-	-	-

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. RELATED PARTY TRANSACTIONS (CONTINUED)

As of 31 December 2022 – Consolidated	KBC Bank NV	KBC Group	Associate companies
Loans and advances from clients (agreed int rate from 0.00% to 15.90%, weighted average int rate 3.77%)*	840 620	753	-
Deposits placed (agreed int rate from -2.25% to 4.90%, weighted average int rate 4.82 %)*	186 574	-	-
Receivables on repo agreements (agreed int rate from 0.25% to 2.0%, weighted average int rate 1.49%)*	1 585 181	-	-
Other demand deposits due to banks	96 843	-	-
Derivatives held for trading- assets	7 907	-	-
Derivatives held for hedging- assets	5 351	-	
Other assets	-	2 210	-
Right of use assets	-	489	-
Total Assets	**2 722 476**	**3 452**	-
Deposits from Banks - Time Deposits (agreed int rate 0%, weighted average int rate 0%)*	1 955 203	-	-
Deposits from Banks - Sight Deposits	14 721	-	-
Funds attracted from clients (agreed int rate 0%, weighted average int rate 0%)*	149	79 986	3 960
Other borrowed funds (agreed int rate from 0.46% to 4.58%, weighted average int rate 3.00%)*	480 839	-	-
Derivatives held for trading – liability	1 539	-	-
Other liabilities	13	550	-
Leasing liabilities	-	490	-
Total Liabilities	**2 452 464**	**81 026**	**3 960**
Interest income	19 439	251	-
Fee and commission income	649	25 240	1
Other income	381	298	-
Rental income	-	386	-
Total income	**20 469**	**26,175**	**1**
Interest (expenses)	(16 348)	(2 837)	-
Fee and commission expenses	(455)	(858)	-
Administrative expenses	(8 328)	(11 831)	(2 042)
Other expenses	-	(33)	-
Interest expenses on lease liabilities	-	2	-
Total Expenses	**(25 131)**	**(15 557)**	**(2 042)**
Net expense from interest rate derivatives	4 217	-	-

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	-	-
Total Assets	**1 653 815**	**881 585**	**31 603**	-
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	-	-
Total Liabilities	**1 495 385**	**47 843**	**4 441**	**2 556**
Interest income	1 466	459	33	-
Fee and commission income	36	20 858	(2)	1
Other income	-	(72)	16	-
Rental income	-	198	106	-
Total income	**1 502**	**21 443**	**153**	**1**
Interest (expenses)	(6 176)	(3 343)	-	-
Fee and commission expenses	425	(1 130)	-	-
Administrative expenses	(9 398)	(8 508)	(676)	(1 893)
Total Expenses	**(15 149)**	**(12 981)**	**(676)**	**(1 893)**
Net expenses from hedge transactions	(152)			

All amounts are in thousand Bulgarian Levs, unless otherwise stated

39. 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	-
Total Assets	**1 653 881**	**882 148**	-
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	-
Total Liabilities	**1 575 148**	**47 850**	**2 556**
Interest income	1 576	459	-
Fee and commission income	36	22 498	1
Other income	-	547	-
Rental income	-	198	-
Total income	**1 612**	**23 702**	**1**
Interest (expenses)	(6 176)	(3 343)	-
Fee and commission expenses	425	(1 130)	-
Administrative expenses	(9 398)	(8 521)	(1 893)
Total Expenses	**(15 149)**	**(12 994)**	**(1 893)**
Net expenses from hedge transactions	(152)		

*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 2022 and 2021, there are no deals that meet the requirements for offsetting in regards for Reverse Repo and Repo. In 2022, respectively 2021 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, 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 January 2022, UBB Insurance Broker EAD was sold to UBB Interlease EAD, hence as at 31 December 2022 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.

All amounts are in thousand Bulgarian Levs, unless otherwise stated

40. 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 2022 and 31 December 2021. The separate and consolidated performance is presented below:

As at 31 December 2022	Geographical location	Size of the turnover	Equivalent number of full-time employees	Financial result before tax	Taxation	Return on assets obtained as the ratio of net profit to total assets
Bank	Bulgaria	502 008	2 372	168 206	(16 704)	0.86%
Group	Bulgaria	507 258	2 408	169 596	(16 976)	0.87%

As at 31 December 2021	Geographical location	Size of the turnover	Equivalent number of full-time employees	Financial result before tax	Taxation	Return on assets obtained as the ratio of net profit to total assets
Bank	Bulgaria	437 834	2 555	190 215	(19 101)	1.10%
Group	Bulgaria	442 968	2 618	191 417	(19 472)	1.10%

41. EVENTS AFTER THE REPORTING PERIOD

In February 2023, the Governance Council of ECB together with the Local Regulator BNB decide that there is no reason to oppose the envisage take-over of KBC Bank Bulgaria EAD by UBB AD based against the criteria set out in Article 29, paragraph 1, item 3 and paragraph 2 and 3, Article 29b, paragraphs 2 and 3 of the Bulgarian law on credit institutions in connection with Article 23 and 24 of Bulgarian Ordinance No2 on the licenses, approvals and permissions granted by the Bulgarian National Bank according to the law on credit institutions.
Date of entry in the commercial register of the legal merger of KBC Bank Bulgarian EAD and United Bulgarian Bank AD is 10.04.2023.

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 2022.