ANNUAL DISCLOSURE
YEAR 2023
ON CONSOLIDATED BASIS

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

Contents

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

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

In July 2022 KBC Bank N.V. ("KBC") acquired Raiffeisenbank Bulgaria EAD from Raiffeisen SEE Region Holding GmbH, followed by a merger in April 2023 of the former Raiffeisenbank Bulgaria EAD (fully owned by KBC Bank N.V) with UBB. After the merger KBC Bank N.V. holds 99.96 % of the shares in the capital of the bank (177 097 816 shares out of totally 177 168 448 shares in the capital of United Bulgarian Bank AD).

1. Scope and Consolidation Methods

This disclosure report has been prepared on a consolidated basis with data as of December 31, 2023, as per Article 70 par. 3 of the Law on Credit Institutions. UBB discloses information on semi-annual basis under part VIII, Title II of Regulation 575/2013.

1.1. Subsidiaries in the Consolidated Report

The subsidiaries and affiliated companies in the corporate structure of UBB as of December 2023 are the following:

Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
UBB FACTORING EOOD	*Full consolidation*	*X*					*Non-credit financial*
KBC LEASING BULGARIA EOOD	*Full consolidation*	*X*					*Non-credit financial*
EAST GOLF PROPERTIES EOOD	*Full consolidation*	*X*					*Non-financial entity*
UBB CENTER MANAGEMENT EOOD	*Full consolidation*	*X*					*Non-financial entity*
CASH SERVICES COMPANY EAD	*Equity method*			*X*			*Non-credit financial*

Template EU LI3

On 31 December 2023 the Bank is a sole owner of UBB Factoring EOOD, KBC Leasing Bulgaria EOOD, UBB Centre Management EOOD and East Golf Properties EOOD. UBB also has its associated company named Druzhestvo za Kasovi Uslugi AD consolidated using the equity method.

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

KBC Leasing EOOD has been a subsidiary of the former KBC Bank Bulgaria EAD. After the legal merger of KBC Bank Bulgaria EAD with UBB AD, the leasing company is fully owned by UBB AD.

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

1.2. Other qualitative information on the scope of application

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

As of 31.12.2023 no practical or legal impediment to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries exist. There are no items to report under Art. 436 d) and e) CRR.

2. Risk Management Policies and Rules

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

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

UBB Management Board's and Supervisory Board's assessment, which is made according to relevant guidelines and regulations, is based on careful review of the quality and outcome of the key building blocks supporting UBB's continuous ICAAP process. These considerations are summarized in this Capital Adequacy Statement, are further substantiated in the background materials of the ICAAP submission and reflect reporting to the MB and SB during 2023 and early 2024.

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

2.2. Information on the risk governance structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The risk function:

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

The Internal Control Statement 2023 confirmed that the integrated and risk-type specific frameworks are overall well implemented in UBB.

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

UBB publishes Disclosures on semi-annual basis.

2.5. Strategies and processes to manage risks

Risk Management Directorate manages and coordinates the overall process on the implementation of the Basel Accord standards at UBB, in full coordination with the respective program at KBC Group level. All strategies, policies and procedures for management and analysis of the main risk types, including that of capital adequacy, have been reconciled with

KBC Group. The Bank has taken appropriate actions for the implementation of Basel III (CRD IV framework) regulatory requirements and IFRS9 framework.

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

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

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

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

- UBB Risk Governance Charter;
- UBB Risk Appetite Statement 2024-2026;
- UBB Enterprise risk management framework;
- UBB Non-Trading Market Risk Management Framework;
- UBB Liquidity Risk Management Framework;
- UBB Liquidity Risk Rule Book;
- Operational Risk Management Framework;
- Credit Risk Management Framework;
- UBB Counterparty Credit Risk Framework;
- UBB Trading Market Risk Management Framework;
- UBB Reputational Risk Management Framework;
- Operational Risk Standard on Risk & Control measurements UBB Business Continuity Management (BCM) Framework;
- UBB Instruction for Crisis Management by Crisis Committee UBB ICAAP Policy;
- UBB ILAAP Policy;
- UBB Stress testing Standards for Financial Risk;
- UBB Loss Data Collection Procedure;
- UBB Local Risk Management Committee Charter;
- UBB Risk and Compliance Committee Charter;
- UBB New and Active Products Process (NAPP) Committee Charter;
- UBB Data Management Framework (DQM);
- UBB Asset Encumbrance Policy.

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

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

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

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

3. Governance

3.1. Governing Bodies

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

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

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

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

The Supervisory Board of the Bank consists of 6 (six) members elected by the General Meeting of Shareholders, including 1/3 external and independent members, in compliance with the requirements of the Credit Institutions Act.

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

3.2. Election of Members of the Management Board

The Management Board comprises from 3 (three) up to 9 (nine) persons elected by the Supervisory Board for a mandate of up to 4 (four) years. The Management Board members may be re-elected without limitations. The Supervisory Board upon a decision of its elects the

members of the Management Board. Each board member may be dismissed by decision of the Supervisory Board prior to the expiration of his/her mandate. The Management Board upon the Supervisory Board's approval elects a Chief Executive Officer among its members. The Chief Executive Officer performs the overall management organization and the day-to-day managerial control on the UBB's activity. The management Board adopts its Operational Rules which is approved by the Supervisory Board.
Detailed information on the knowledge, skills and expertise of the members of the Management Board is disclosed in the Annual Financial Report.

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

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

3.4. Risk Management Bodies

3.4.1. Supervisory Board (SB)

- The SB decides and supervises the current and future risk appetite and risk strategy. The SB is responsible for putting robust governance arrangements in place, to ensure that all material risks are appropriately managed and that capitalization and liquidity are adequate.
- In order to do so, the SB decides on the UBB Risk Governance Charter and the UBB Enterprise Risk Management Framework, UBB ICAAP/ILAAP policies, and supervises the implementation, efficiency and effectiveness of the RMF's general concept, which is to be in all underlying frameworks and standards including the implementation of NAPP (New active product and process) Standard. UBB Risk function is responsible to implement the general concept and the strategy related building blocks of the UBB Risk Management Framework aligned with KBC Risk Management Framework.
- To make sure that risks are properly managed according to the specified governance arrangements, the SB is also responsible for the development of a sound and consistent risk culture, based on a full understanding of the risks UBB faces and how they are managed, and taking into account the Group Risk Appetite.

3.4.2. Risk and Compliance committee (RCC)

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

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

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

The RCC of UBB reviews whether prices of liabilities and assets and categories of off-balance sheet products offered to clients take fully into account the institution's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the RCC of UBB shall present a remedy plan to the SB of UBB.

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

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

3.4.3. Management Board of UBB (MB)

The Management Board of UBB is the single integrating management committee on risk management. The Management Board of UBB issues within the latter are responsibility:

- Define the Risk Appetite, including the strategic objectives with regard to risk, capital and return, and propose it to the Supervisory Board for decision.
- Propose for decision to the Supervisory board the UBB Risk Governance Charter and the UBB Enterprise Risk Management Framework, UBB ICAAP/ILAAP policies.
- Monitor the risk exposure compared to the Risk Appetite, and periodically reports on its status and evolution to the Risk and Compliance Committee and the Supervisory Board.
- Decides the Vision, Mission and Strategy of the UBB Risk Function - aligned with the Vision, Mission and Strategy of KBC Group Risk - and supervises the implementation.
- Monitor the implementation, efficiency and effectiveness of the KBC Risk Management Framework including the implementation the NAPP Standard and the KBC Standards for Assessment of the Risk Function of as well as its compliance with legal and regulatory requirements.

Include the risk and capital dimension in all their decision-making acting as role model for a sound and consistent bank-wide risk culture.

3.4.4. Local Risk Management Committee (LRMC)

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

- To propose the UBB Enterprise Risk Management Framework, the Risk Governance Charter and the ICAAP/ILAAP policies to the Management Board for advice, before these documents are submitted for approval to the Supervisory board;
- To propose to the Management Board the Risk Management Framework and its main building blocks and to periodically review the same. UBB Risk Management Framework will be aligned with the Group Risk Management Framework;
- To periodically review the effectiveness of and compliance with the KBC Risk Management Framework and propose improvement actions to the Management Board;
- To implement the Group CRO Services' strategy on the local level by setting up the core processes reflecting the strategic value propositions, defining the key performance indicators for these processes and assigning related roles, responsibilities and resources;
- To follow up on the efficiency and effectiveness of the core processes and decide on improvement actions;
- To actively promote (via communication and education) the risk and capital agenda;
- To propose a framework of limits and policies;
- To monitor exposure against these limits;
- To decide on or recommend to the Management Board limit reviews and changes, or mitigating action when exposure is in excess of limits, in line with the governance rules for limits;
- To manage coordination issues across business units;
- To share knowledge and best practices and promote/request alignment;
- To act as a sounding Management Board for risk concepts, (to be) decided on at the UBB Risk and Compliance Committee (RCC) / CRO Services MC;
- To act as a second level of escalation in the New and Active Products Process (NAPP);
- To monitor the Local Risk Profile (integrated and by risk type), including results of stress-tests, to ensure consistency with the Risk Appetite;
- To monitor market context, solvency, liquidity, earnings at risk, risk/return profile, balance sheet profile, maturity transformation and structural interest rate exposure;
- To monitor capital adequacy and usage of regulatory and economic capital;
- To exercise additional oversight in the activity domains of the CRO (credit and operational risks) to mitigate the risks linked with imperfect split in 1st and 2nd line of defense in the activity domains of the CRO.

LRMC has a generic agenda covering all substantial financial risks (credit risk, ALM, liquidity, macroeconomic environment) as well as non-financial risks (operational risk, reputational risk, business risk, data quality, information risk management).
The Committee shall hold meetings on a monthly basis or more often if needed.
The Minutes and decisions from LRMC meetings are approved via e-mail by the members of the committee. The final Minutes are submitted for information and final validation to next meeting of the LRMC

3.4.5. New and Active Products Process (NAPP)

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

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

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

NAPP ensures that products offered comply with the requirements and capability of the clients.

3.4.6. Corporate Sustainability and Responsibility Steering Committee Bulgaria

The CSRSC shall assist the Country Team with the implementation and proper functioning of the approved KBC Group's corporate sustainability and responsibility framework in Bulgaria. The CSRSC has overall responsibility locally for CSR, provides leadership and demonstrates commitment to CSR across the country's activities. Communication and raising internal awareness on CSR is an important part of their role. They identify issues that are relevant locally and implement the Group CSR framework in a way that suits their CSR needs and priorities. As a CSR Steering Committee, it provides strategic guidance and approves the CSR policies and approach. They will follow up on performance and progress within their country.

3.4.7. Sustainable Finance Steering Committee

In October 2021 the Sustainable Finance Committee starts functioning in Bulgaria together with CSR committee. Its role is to assist with the operational mission and actions towards ESG Strategy and Program. The mission of the Sustainable Finance Steering Committee is to:

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

3.4.8. Local Provisioning Committee

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

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

- Approval (changes to) the Bank'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 Bank 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.

The Local Provisioning Committee takes decisions provided more than half of its permanent members are present in person. Each member is entitled to one vote.

Decisions of the Local Provisioning Committee shall be made with total majority (unanimously) of the attending members. If no consensus is reached a final decision will be taken by the Management Board.

4. Differences between Accounting and Regulatory Exposure Amounts

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

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS as adopted by EU.

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

Template EU LI1- Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories

Template EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

4.2. Prudent valuation adjustments (PVA)

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

Template EU PV1 Prudent valuation adjustments (PVA)

5. Regulatory Capital and Capital Adequacy

5.1. Structure and Elements of Own Funds

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

Table EU CC2 Reconciliation of regulatory own funds to balance sheet in the audited financial statements

5.2. Disclosure of information about main features of capital instruments

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

Table EU CCA Main features of regulatory own funds instruments and eligible liabilities instruments

After the merger, UBB acquiredAT1 and Tier 2 instruments that were initially elements of Raiffeisenbank (Bulgaria) EAD's equity.

5.3. Information about own funds

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

Table EU CC1 Composition of regulatory own funds

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

5.4. Capital Requirements

The Bank fully complies with the Regulation (EU) 575/2013, Directive 2013/36/EU and supervisory requirements of BNB, according to which Tier-I capital and of the Total capital adequacy ratios (OCR and P2G) should be no less than 16.63 % and 19.00 % respectively.

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

Table EU OV1 Overview of total risk exposure amounts

5.5. Capital Adequacy and Capital Buffers

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

Table EU KM1 Key metrics template

6. Countercyclical Buffer Requirements

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

Template EU CcyB1 Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

As of 31.12.2023 UBB has foreign exposures (for the purpose of calculating CCR) towards Armenia, , Albania, Australia, Austria, Azerbaijan, Bulgaria, Belgium, Canada, Switzerland, Chile Cypress, China the Czech Republic, Denmark, Germany, Guatemala, Egypt, Spain, Finland, France, Great Britain, Greece, Georgia, Croatia, Hungary, Ireland, Israel, Italy, India, Japan, Kyrgyzstan, Kazakhstan, South Korea, Liechtenstein, Luxembourg, Latvia, North Macedonia, Moldova, Malta, Malaysia, Nigeria, the Netherlands, Norway, Peru, Poland, Portugal, Romania, Serbia, Russia, Sweden, Slovenia, Slovakia, Turkey, Ukraine, the USA.

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

		a
1	Total risk exposure amount	15,703,816
2	Institution specific countercyclical capital buffer rate	2.0%
3	Institution specific countercyclical capital buffer requirement	314,076

Template EU CCyB2

7. Leverage

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

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

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

Template EU LR1 LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

As of the end of the year 2023, the Bank has sustained a leverage ratio of 7.98% (fully phased-in definition) against a preliminary EBA target level of 3.0%.
Template EU LR2 LRCom: Leverage ratio common disclosure

In 2023 UBB was not required to track and report values of SFT values, therefore it has nothing to report in the report.

Template EU LR3 LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

8. Liquidity Risk Disclosure

8.1. Liquidity Management Basics

Liquidity risk is the risk that an organization will be unable to meet its liabilities/obligations as they come due, without incurring higher than expected costs. This problem increases when an institution is faced with, for instance, sudden increased withdrawals of funds or when funding lines are cut.

Three subtypes of liquidity risk are distinguished:

- Day-to-day liquidity Risk: The risk that no sufficient buffer is always available to deal with exceptional liquidity events when wholesale funding cannot be rolled over.
- Structural liquidity risk (commonly referred to as funding risk): The risk that the company’s long-term assets and commitments cannot be (re-)financed timely or can only be refinanced at a higher-than-expected cost.
- Contingency liquidity risk: The risk that a company is unable to attract additional funds or replace maturing liabilities under stressed market conditions.

UBB’s liquidity and funding management approach and the assessment of its adequacy are detailed in the UBB’s ILAAP Policy.

A prerequisite for the UBB’s ILAAP Policy is the UBB’s Corporate Strategy and the Risk Appetite Statement. The two documents are the reference for an iterative and continuous ILAAP process, based on (1) thorough risk identification, (2) risk measurement, (3) risk appetite setting, (4) forward looking assessments, (5) monitoring and (6) response. These process steps are not strictly sequential but interact with one another.

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

UBB’s Liquidity Risk Management Framework (LRMF) shows how liquidity risk management is performed on a continuous basis. The LRMF defines the playing field, and the risk management rules as well as the processes in the business-as-usual (BAU) and in stress situations. A robust and regularly tested Liquidity Contingency and Recovery Plans are put in place. None of the mentioned crisis plans came close to being activated in 2023.

Risk management is a key component of the strategic management of UBB. It aims to simultaneously improve both UBB's risk resiliency and agility in a volatile, uncertain, complex and ambiguous environment. In doing so, it helps to safeguard the interests of UBB and its stakeholders. The UBB's Enterprise Risk Management Framework defines the standards for risk management, making sure that the risk management process is uniformly and qualitatively implemented throughout the whole of KBC Group.

The UBB Liquidity Risk Management Framework elaborates on the specific measures, methods, processes, and tools used for liquidity risk management. Risk tolerance is expressed, among others, through a set of liquidity risk limits that serve as solid footing for the liquidity risk management process. They are complemented with internal liquidity risk assessments and a set of processes and reports in order to allow adequate and independent monitoring of the business.

A structure of management bodies and committees are in place and performs the governance function. These management bodies and committees are engaged with liquidity risk management in the Bank. The Supervisory Board (SB), supported by the Risk and Compliance Committee (RCC) and the Management Board (MB), establishes the risk parameters by expressing the Risk Appetite. A set of liquidity risk limits complemented with internal liquidity risk assessments and a set of monitoring processes and reports are present in order to allow an adequate and independent steering of the liquidity position. For all risk related activities and topics Management Board (MB) is supported and advised by the Local Risk Management Committee (LRMC).

To promote clear accountability for risk taking, oversight and independent assurance, a "three lines of defense" concept is implemented in UBB, which is the foundation of UBB's risk governance.

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

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

The third line of defense is performed by **Internal Audit**, assuring an independent review and challenge of the UBB's first- and second-line liquidity (risk) management processes.

The Liquidity Risk Appetite and Profile are expressed as a combination of two measures, which are defined via a set of Early Warning Level (EWL) signals and hard limits, in the yearly Risk Appetite Statement of the Bank:

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

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

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

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

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

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

- On a monthly basis, Liquidity and Funding Report is produced by Treasury and presented to LRMC. In this report Treasury presents its assessment of the liquidity and funding situation.
- Market and Liquidity Risk Management Department within Risk Management Directorate calculates the LCR, NSFR and other additional liquidity ratios/measures to monitor the liquidity profile and to assess possible breaches of UBB's internal limits. The liquidity measures and the results of the performed stress tests are part of the Integrated Risk Report, presented to the LRMC, the RCC and the supervisor.
- On a quarterly basis, the reports are complemented with additional metrics such as the intraday liquidity stress tests performed in all banking entities within the KBC Group.

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

- defining the target liquidity risk position (Treasury Strategy exercise);
- defining and underpinning the risk appetite and its corresponding limits (reverse stress tests);

- targets for operational risk measures and providing a view on the size of the most liquid part of UBB's asset buffer.

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

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

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

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

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

As an outcome of the process, the bank has to make a clear and formal Liquidity Adequacy Statement (LAS) supported by an analysis of the outcomes, approved and signed by the Management Board and the Supervisory Board. The LAS is submitted to the relevant authority. The **Liquidity Adequacy Statement (LAS) 2023** presents the view of the UBB Management Board (MB) and the Supervisory Board (SB) on the current and forward-looking liquidity adequacy of UBB. It outlines MB's and the SB's thinking on its ability to maintain an adequate liquidity and funding position going forward in view of the Corporate Strategy, business model, and current and expected evolution of risk profile under different scenarios, next to the effectiveness of risk management, control environment and governance.

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

This conclusion is supported by:

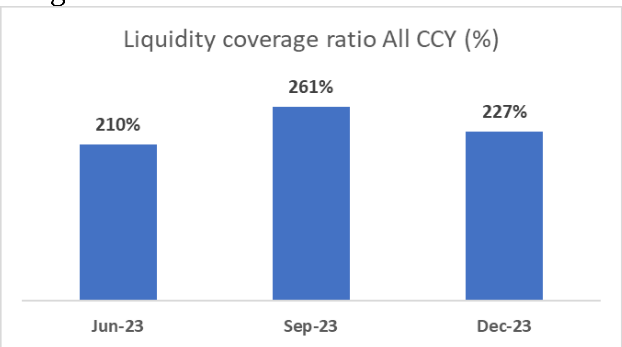
- A solid and well-embedded ILAAP, which is comprehensive and proportionate to the nature, scale and complexity of UBB activities in all its building blocks, both qualitative and quantitative. It is further confirmed by the ECB SREP 2023 Joint Decision for UBB that assesses the liquidity risk for UBB as medium-low risk;
- A sustainable business model supports a sound liquidity position.
- A sound risk and control environment, with continued progress made in liquidity and funding risk management throughout 2023.
- A low-risk appetite with regard to liquidity;
- Regulatory ratios that stand well above both the regulatory and internal floors. At the end of 2023 the Net Stable Funding Ratio (NSFR) stood at 169% and the Liquidity Coverage Ratio (LCR) stood at 227%.
- A solid liquid asset buffer that comprises 6 875 MEUR unencumbered central bank eligible assets.
- Liquidity ratios that remain solid under a wide range of stress scenarios performed.
- A robust and regularly tested Liquidity Contingency Plans (LCP) for early identification and effective management of potential liquidity crisis situations next to Recovery Plans (RP) designed to provide an orderly return to a normal situation in case measures would not prevent UBB from slipping into recovery mode.

8.2. Liquidity Coverage Ratio (LCR)

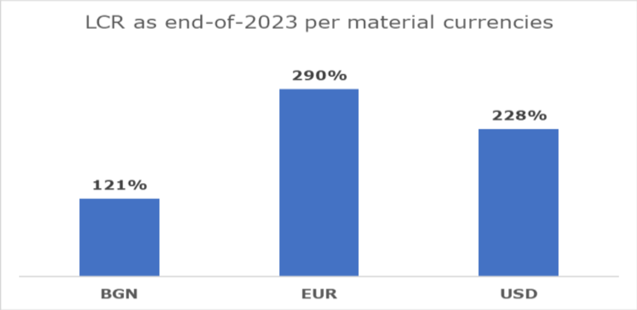
Regulatory LCR ratio stood at a comfortable level and maintained a stable liquidity position: LCR was 227% as of end-of-2023, which is well above the minimum regulatory requirement and also UBB’s internal limit. In addition to the regulatory requirements the Bank has an early warning level of 120%. This is according to group practices and policies. In this respect, the Bank disposes of enough high-liquidity resources, in order to handle powerful stress scenario, which continues for 30 days.

Template EU LIQ1

The changes in the ratio during the year are related to the normal business activities of the bank (predominantly to the volumes and maturity of the intragroup transactions) as well as the legal merger of the two banks.



LCR also monitors the monthly reports per material currency.
As of end-of-2023, the respective figures in BGN, EUR and USD are well above regulatory required level (min 100%):



Template EU LIQ2

At the end of 2023, UBB has a substantial amount of unencumbered liquid assets: 6 875 MEUR of unencumbered central bank eligible assets, 2 493 MEUR of which are in the form of liquid government bonds. The rest are cash and central bank exposures in the form of central bank receivables and minimum required reserves 4 314 MEUR and other securities. Most of the unencumbered liquid assets are denominated in Euro and Bulgarian lev. The composition of UBB's bond portfolios is decided as part of the APC process and Treasury strategies. The wholesale funding is limited mainly to intragroup funding, while funding from non-wholesale markets was accounted for by stable funding from core customer segments in our core markets.

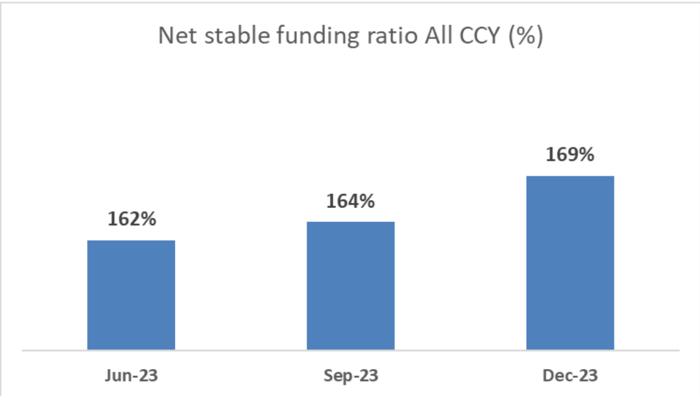
There are no other elements in the calculation of the LCR that the bank considers important, and which are not included in the calculations of this indicator.

8.3. Net Stable Funding Ratio (NSFR)

As well as the liquidity coverage ratio, the net stable funding ratio remained stable in the previous year and above the regulatory requirements. No breaches of the limit were observed through the entire year. Net Stable Funding Ratio as of end of 2023 is 169%.

The volume of the ratio exceeds minimum regulatory requirement of 100%, which discloses the ability of the Bank to maintain its action, while at the same time ensures stable assets and liabilities maturity structure.

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



UBB finances 77% of its assets by means of customer funding. The long-term wholesale funding is also tolerated for the bail-in purposes and funding diversification as well.

The stable customer funding position of UBB is also proved by the fact of lack of concentration of large depositors. The share of top 10 non-financial depositors is less than 10% of the total liabilities of the Bank as of end-of-2023.

9. Credit Risk and Risk Weighted Assets

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

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

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

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

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

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

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

Template EU CR4 Standardised approach – Credit risk exposure and CRM effects

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

Template EU CR5 Standardised approach

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

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

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

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

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

11. Asset Quality and Non-Performing Loans

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

- Financial assets that are measured at amortized cost;
- Debt instruments that are measured at fair value through other comprehensive income;
- Loan commitments that have been issued and are not measured at fair value through profit or loss;
- Financial guarantees given that are not measured at fair value through profit or loss;
- Lease receivables recognized by the lessors (in scope of IFRS 16f); and
- Contract assets (in scope of IFRS 15)

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

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

Other receivables other than the Loan related (e.g. on rental contracts, receivables on service contracts which are predominantly short term) are tested for impairments applying a simplified approach (due to low materiality) on annual basis in case of indications for deterioration of the financial status of the client (e.g. triggers are days past due, other information indicating non-performing status). In the assessment UBB considers the provided collateral and the received Guarantees. All receivables with days past due above 90 are in Stage 3 and are impaired with 50% and those with DPD >180 are 100% impaired. Receivables below 90 days past due are in Stage 2 (not impaired) and are subject to ECL: of 2.3% for trade receivables; 2.7% for operating leases and 0.2% for Cash collateral deposited on derivative transactions or rental contracts. The Expected credit losses (ECL) are reported as impairment charge on other receivables and the latter are reported net of the ECL in the Statement of financial position.

11.1. Non-Performing Loans

Strategy for Non-performing loans management

To manage adequately the NPL levels , UBB will continue to follow the current strategy with its two main directions:

- focus on avoidance of new NPL’s through maintaining the current underwriting criteria, step-by-step automation of the monitoring procedures, including fast actions on first signals and constant expansion of the risk awareness of Business.
- fast recovery through very active collection with early involvement both for companies and for retail, using a specialized call center and dedicated restructuring units. Expanding the communication channels with clients and taking first steps in digitalizing the end-to-end process of restructuring.

A regular write-off schedule is also applied, which allows more proper management of the iron stock for annual decrease of the NPL portfolio.
One of the sub-portfolios with the highest NPL ratio continues to be the SME portfolio, both the current as well as the expected one. Therefore, the national/international guarantee funds will continue to be actively used as an instrument to decrease the risk in this portfolio and speed up its recovery. Some of the new guarantee schemes cover even for medium and large corporate clients.

Definition of default

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

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

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

The ECL is calculated in a way that reflects:

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

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

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.

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

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

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

11.2. Credit Quality

The disclosure of credit quality as of December 2023 is included in the following templates:

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

12. Techniques for Credit Risk Mitigation

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

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

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

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

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

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

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

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

Credits under programs like COSME, COSME COVID-19, COSME Digitalization Pilot, InnovFin, JEREMIE and others form the majority of the portfolio secured by financial guarantees.

Template EU CR3 CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

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

13. Counterparty Credit Risk

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

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

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

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

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

Template EU CCR1
Analysis of CCR exposure by approach

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

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

Template EU CCR3 Standardised approach – CCR exposures by regulatory exposure class and risk weights

13.1. Credit Value Adjustments (CVA) Risk

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

Template EU CCR2 Transactions subject to own funds requirements for CVA risk

13.2. Available Collateral on CCR Transactions

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

Template EU CCR5 Composition of collateral for CCR exposures

14. Market Risk

Market risk is the risk of experiencing losses due to adverse changes in market prices. This includes changes in the value of traded assets (e.g. stock and commodity prices), movements in directly or indirectly observable prices (such as market indices, spreads, and correlations), and effects of changes in the volatility and liquidity of these factors. Market risk, therefore, arises from present value changes of on- and off-balance sheet positions in the bank's trading and banking book.

Regarding the Banking Portfolio, the strategy of UBB is to acquire liquid assets in accordance with the requirements of the Group and the local regulator. In general, the volumes are adjusted in line with the Annual Planning Cycle (APC) and defined in line with Risk Appetite Statement (RAS). Potential investments are carefully selected and in accordance with internal rules, procedures and approved limits.

Risks in scope of the non-trading market risk domain (i.e. on- and off-balance sheet positions in the banking book) can be aggregated into two basic pillars: *Interest Rate Risk* (ALM risk, including CSRBB) and *Risk arising from Asset Mix* (Asset Mix risk, excluding credit risk).

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

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

HVaR is defined as the maximum value which can be lost:

- Under instantaneous shocks in risk factors
- Reflecting market moves over a certain holding period
- Within a certain confidence level

- With respect to the expected value under these shocks
- For a fixed portfolio composition.

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

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

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

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

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

14.2. Capital requirements for Foreign Exchange Risk

The Bank calculates capital requirements for FX risk resulting from both, the banking and the trading book, according to the standardized approach, described in Chapter 3 (Art. 351-354) of Regulation (EU) 575/2013, but since the amount of the total net open FX position does not exceed 2% of the Bank's own funds no additional capital for FX risk needs to be allocated.

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

The Bank has no Commodity and Settlement risk exposures.

UBB uses the Standardized Approach for Market Risk Calculations.

Template EU MR1 Market risk under the standardised approach

15. Operational Risk

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

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

Following a Group initiative called PRIOR (Project for the Reorganization of Operational and Information Risk), UBB has also started to implement a streamlined approach to operational risk management. We are gradually moving from processes to business lines, and from assessing Group Key Controls to creating and maintaining detailed control environment descriptions across business lines called Risk & Control Inventories (RCIs). The aim is to provide more detailed oversight and better assurance to stakeholders regarding our exposure to risk and the state of our internal control environment. To support the new approach, a new system GRACE has been selected at Group level to replace BWise as a common control functions' system. Following validation of the business requirements, implementation of the system has commenced, and testing is underway.

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

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

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

BCM ensures the continuity of delivering vital services and products to customers in the event of a serious disruption, crisis or disaster. BCM focuses on availability, i.e. the Recovery Time Objective (RTO) or the amount of time in which business activities need to be operational again following a serious disruption, crisis or disaster.

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

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

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

Template EU OR1 Operational risk own funds requirements and risk-weighted exposure amounts

16. Disclosure of Encumbered and Unencumbered assets

The encumbered and unencumbered assets of UBB to 31.12.2023 are as follows:

Template EU AE1

Template EU AE1 - Encumbered and unencumbered assets

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the disclosing institution**	512 035	461 687			33 611 406	5 986 907		
020	Loans and advances on demand	55 771	16 570			8 127 900	621 550		
030	Equity instruments	0	0			27 373		27 373	
040	Debt securities	445 117	445 117	395 643	395 643	5 439 359	5 365 357	5 177 408	5 103 406
050	of which: covered bonds					63 732		62 635	
060	of which: securitisations								
070	of which: issued by general governments	445 117	445 117	395 643	395 643	5 252 319	5 252 319	4 994 829	4 994 829
080	of which: issued by financial corporations					113 038	113 038	108 577	108 577
090	of which: issued by non-financial corporations					74 002		74 002	
100	Loans and advances other than on demand	11 147				19 041 980			
120	Други активи	0				974 794			

UBB's encumbered assets include:

- blocked government securities in connection with attracted funds from budget organizations
- blocked cash at the Central bank in relation to the participation in a guarantee mechanism for local cards settlement
- blocked cash on account with banks, representing margin account for derivative deals.

None of the collateral received by the Bank is available for encumbrance.

Template EU AE3

Template EU AE3 - Sources of encumbrance

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
	010	030
Carrying amount of selected financial liabilities	**382 666**	**512 035**

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

17. Securitization

There has been no securitization of the Bank's assets in 2023.

18. Specialized Lending

UBB has nothing to disclose in 2023.

19. Remuneration Policies and Practices

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

The Remuneration Committee is a subcommittee of the Supervisory Board, composed of Chairperson and two independent members, who are also members of the supervisory board and are not executive members of the Management Board of Directors. The members of the SB are appointed by the General Meeting of Shareholders for a period of 4 (four) years. The Remuneration Committee exercises competent and independent judgment on remuneration policies and practices, and the incentives created for managing risk, capital and liquidity. It is responsible for the preparation of decisions regarding remunerations, considering the implications for the risk and risk management of the bank, the long-term interests of shareholders, investors and other stakeholders in the bank.

In 2023 the UBB Remuneration Committee gathered twice - on regular Committee Meeting, held on 30.03.2023.

The UBB Remuneration Policy was amended once in 2023, with regard to the legal merger with the ex-Raiffeisen Bank Bulgaria and in order to adopt one unified Remuneration Policy for the United Bank and Key Identified Staff (KIS) list review and identification.

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

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

A mandatory component in the remuneration schemes for all UBB employees is individual performance-based compensation, based on a yearly performance appraisal instrument and taking non-financial/qualitative criteria into account, such as personal development, compliance with the institution's systems and controls, sound risk behavior, commitment to the business strategies and its major policies and contribution to the performance of the team. Remuneration schemes used within UBB are based on competences, job weightings, skills, contribution and performance, and are aligned with long-term shareholder interests and profitability, considering overall risk and the cost of capital.
The variable remuneration shall not exceed 100% of the total annual fixed remuneration. A minimum proportion of 10% of the variable compensation is based upon the KBC Group reported results, mandatory parameter only for KBC senior managers.

Variable remuneration is a set of monetary bonuses, premiums and performance incentives, and other equivalent non-cash instruments. The variable remuneration should not induce risk-taking in excess of the risk profile of the Bank and should be based on risk- and liquidity-adjusted profit, not on gross revenues. Performance bonuses shall be paid only in case of Bank's net profit plan fulfilment at above 80%.

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

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

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

An integral part of the Remuneration Policy is the List of Key Identified staff members with a material impact on the risk profile of the Bank, identified by qualitative and quantitative criteria as per the Regulatory Technical Standards (RTS) on Key Identified staff, for which are subject to specific requirements regarding non-cash instruments and deferrals, related to their variable remuneration.
Key Identified staff are differentiated in the following groups:

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

For the Key Identified staff members (Management Board members and L1 Managers) with material impact on the risk profile of the Bank, 50% of the variable remuneration consists of share-linked instruments, i.e. phantom stock based upon the KBC Group share, or an alternative equity-linked instrument imposed by a local regulator. This principle is applied to both the variable remuneration component paid upfront and the deferred variable remuneration component.

For all employees identified as KIS with less significant influence on the company risk profile, the variable monetary remuneration shall be based on the results of the core business of the Bank, the results of the structural unit, and their individual performance. 50% of the variable monetary remuneration of these employees, for which the amount of the variable exceeds EUR 40 000 and up to EUR 50 000 shall be deferred, to promote the achievement of sustainable and long-term results and discourage risk-taking beyond the acceptable level for the given position. In case of unsatisfactory financial result of the Bank, the Management Board can take a decision to limit the deferred variable remuneration of employees identified as non-material KIS, to suspend or reduce their payment.

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

Template REM1 Remuneration awarded for the financial year

Template REM3 Deferred remuneration

Template REM5 Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

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

KPI	Action	Status <AS IS>				Timeframe
Diversity metrics - gender diversity	Strive for balanced diversity structure of the Management body of KBC Bulgaria Group on: ☐ **Gender** Target for gender diversity: - MB and SB of UBB – ratio of underrepresented gender towards overrepresented gender to fit within the 20% best ratios as measured by EBA Benchmarking of Diversity	Body	**Male**	**Female**	**Ratio (m:f)**	Q3 2025
		UBB MB	4	4	50% : 50%	
		UBB SB	5	1	83% : 17%	
	☐ **Education** Target for education diversity: All boards include members with diverse educational majors – at least two members have major in economic, legal or technical.	Members with economic, legal and technical education				Permanent
	☐ **Experience** Target for experience diversity: All boards include members with experience in different financial institutions and/or in different countries	Members with experience in different financial institutions, in different countries				Permanent
	Support of returning mothers	Specialized on-boarding program for returning mothers providing career counselling and orientation Breastfeeding leave for mothers of young children Options for flexi time				Permanent
Diversity metrics - people with disabilities	Positions available for people with disabilities	All entities comply with Bulgarian legislation with respect to employing people with disabilities, e.g. 2% of average headcount				Permanent
	Support to employees and their children	Charity fund, which proves support to employees and their				Permanent

		children with disadvantages/ disabilities or families with 3 or more kids	
Gender Pay Gap	Ensure equal pay	Gender pay gap analysis in process according to the KBC selected methodology, report and proposed action plans to be submitted to CMT in H2'2023	H2'2023
Gender equality principle in all HR related processes, incl. promotion decisions	Equal treatment and inclusion are essential part of our organizations. Equal opportunities principle is included in several HR polices	HR related polices reviewed and updated, explicitly embedding D&I and equal opportunities principles in all HR related processes	Permanent
	In all decisions on hiring, promotion and development, as a principle it is requested to consider candidates from both genders. In this way focus is kept on the matter and an evolutionary progress can be achieved. At group level this principle is applied on appointments for TOP300 and nomination as top talent.	Embedded in the process	Permanent

Training & communication	Learning events	E-learning on unconscious bias for all colleagues (mandatory for all leadership roles) completed	2023
	Ensure internal communication on D&I	Post information on Diversity & Inclusion in Internal sites/e-learning platforms	Permanent
Top talent pool	Monitor Top talent gender ratio and look for ways to balance the gender ratio incl. focus on the underrepresented gender. Target for the local talent list – maintain the 50-50 proportion with 10% deviation over time.	In line: Current top talent ratio: 57% male / 43% female	Permanent
Zero tolerance rule on flagrant disrespectful behavior	Promote principle throughout all staff	In line Current Code of conduct is embedding the principles of equal treatment, diversity and respect. It explicitly introduces	Permanent

		zero tolerance rule on flagrant disrespectful behavior, e.g. Abusing one’s position in dealings with colleagues. Making insulting remarks about others. Acting in a way that undermines the integrity or dignity of colleagues. Conspiring against colleagues. Bullying, harassing, discriminating against or sexually harassing colleagues or clients There is a process in place for submitting signals in cases of harassment and other flagrant disrespectful behavior (Whistleblowing policy).	

20. Indicators of potential climate change transition risk

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.

Six environmental objectives are laid out in the Taxonomy Regulation:

- climate change mitigation (CCM);
- climate change adaptation (CCA);
- sustainable use and protection of water and marine resources (WTR);
- transition to a circular economy (CE);
- pollution prevention and control (PPC);
- protection and restoration of biodiversity and ecosystems (BIO).

Article 8 of the Taxonomy Regulation requires 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 this Disclosure Delegated Act (hereinafter 'DDA') a phased approach is introduced. From 1 January 2022 on, until 31 December 2023, the disclosures of financial undertakings in scope of the NFRD were limited to eligibility for climate change mitigation and climate change adaptation taxonomy. As of 1 January 2024, these undertakings are required to disclose taxonomy alignment regarding these objectives and taxonomy eligibility for the other four environmental objectives.

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.

UBB not only focus on the EU Taxonomy, but also closely monitor other environmental initiatives. When developing banking products, the Bank evaluate their green or sustainable nature based on the taxonomy or, if applicable, other initiatives. Individual taxonomy-eligible credit applications are also thoroughly screened to verify compliance with the technical criteria and social minimum safeguards.
In this third reporting, data availability remains a challenge.

For loans and advances to and debt securities and equity instruments of companies subject to the NFRD, it is prescribed in Article 8(4) of the DDA that financial undertakings shall use the most recently available data of their counterparties. In order to define whether a counterparty is subject to NFRD disclosure obligations or not, UBB look at criteria as defined in the NFRD: listed or unlisted, number of FTE, balance sheet total and turnover of the counterparty. Non-financial counterparties have disclosed alignment data on climate change mitigation and climate change adaptation for the first time in their publications for 2022, as their disclosure obligation entered into force a year before that of financial undertakings. No alignment information is available for financial counterparties at this time. As the European Single Access Point (ESAP) database is not yet operational, finding all the relevant counterparty information in the published reports is a major challenge.

Many of UBB's corporate counterparties are not subject to the NFRD. As a result, these companies are not required to report on taxonomy and UBB cannot include these counterparties in eligible and/or aligned assets. UBB is therefore currently unable to include the financing of renewable energy projects, as these companies generally use structured entities (SPVs).

UBB is currently unable to carry out a full alignment assessment for loans to households (real estate and motor vehicles) due to a lack of individual data on the underlying assets. For instance, UBB does not have all individual data on the houses being financed, and for many financed electric vehicles UBB lack information on car tyres and the circular use of materials. The discussion in this annual report mainly focuses on mandatory disclosures. Data availability and data quality are continuously monitored, and appropriate action is taken to make progress on this level.

The mandatory eligibility percentage for the assets of UBB is 49.7%. This figure includes mortgage loans and car loans to households, as well as the eligible exposure to financial and non-financial counterparties (including those subjects to the NFRD), based on available client information. The alignment percentage (GAR, green asset ratio) is 0.1%. This percentage is low due to the limited availability of data and the asymmetric definitions of the GAR numerator and denominator. For instance, in the numerator corporate counterparties are limited to companies subject to the NFRD, whereas the denominator must also include counterparties that are not subject to the NFRD. The denominator also contains a number of other assets that are not eligible for alignment, such as derivatives and cash. In the table below, is a reconciliation of total assets (without impairment) with aligned assets (based on the counterparties' turnover KPIs). The trade portfolio and amounts involving central banks and central governments are excluded. Given the limited availability of data on UBB's counterparties, the percentages are limited here, too.

Total assets	34,123,442
Excluded from taxonomy	13,527,225
GAR assets (denominator)	**20,596,217**
Other assets	1,027,417
Non NFRD	9,729,973
GAR assets (numerator)	**9,838,826**
Non-eligible	4,951,614
Eligible assets	**4,887,212**
Non-aligned	4,863,095
Alligned Assets	**24,117**