

**RAIFFEISENBANK (BULGARIA) EAD**

**ANNUAL CONSOLIDATED DISCLOSURE 2021**

**ON THE REQUIREMENTS SET OUT IN ARTICLE 70 OF THE LAW ON CREDIT INSTITUTIONS  
AND PART EIGHT OF REGULATION (EU) 575/2013**

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## 1. REPORTING ENTITY

Raiffeisenbank (Bulgaria) EAD (the Bank) is the first greenfield foreign direct investment in the Bulgarian banking sector. The Bank is registered in the commercial register of the Sofia City Court on 01. Aug.1994.

The Bank is 100% owned by its parent company Raiffeisenbank International (the RBI Group), Austria.

Raiffeisenbank (Bulgaria) EAD has a full license for operations in Bulgaria and abroad issued by the Bulgarian National Bank and for performing all types of deals and services as an investment intermediary in accordance with the Law on Public Offering of Securities and the related acts.

## 2. REPORTING CURRENCY

The reporting currency for this disclosure and Pillar 3 Annex is million Bulgarian Leva (BGN).

## 3. GOALS AND RISK MANAGEMENT POLICIES – ARTICLE 435

### SECTION A: GENERAL INFORMATION ON GOALS AND RISK MANAGEMENT POLICIES

The risk strategy is aligned with the Group's business strategy and describes the planned business structure, strategic development, and growth under a process-, methodology-, and organisation-based view on risk and risk factors. It is an important instrument for the development of the Group as a whole as it establishes a link between business orientation and risk orientation. This link is expressed through the Risk Appetite and specific risk targets which are derived from the Group's mid-term business targets and thus frame upcoming risk related business decisions.

The risk strategy is based on the bank's business strategy, regulatory requirements, and organizational structures. The definition of this risk strategy is motivated by the following objectives:

- It strengthens the understanding for RBI Group's values and targets and governs risk management in all Group members.
- It promotes risk awareness within RBI Group and helps identification with the Group's

strategy.

- It is a high-level steering instrument in the means that RBI Group members use it as a starting point for developing their own risk strategies.
- It enhances transparency by announcing risk targets of RBI Group and defines top-level responsibilities for risk management.



Risk is defined as exposure to uncertainty, the potential for loss because of a negative deviation from an expected outcome.

As a precondition, two components must be present to pose a risk: uncertainty and exposure. Uncertainty arises from the lack of knowledge about the future and often is associated with variability around expected values. Exposure in the banking context is formed by any transaction or business decision that contains uncertainty in the result.

There are two types of risks: one type which we actively underwrite for receiving an adequate premium and another type inherent in the banking business that we cannot quantify in a standardized and efficient way to a full extent. Many risks also allow for positive deviations from expected outcomes and thus represent opportunities as well. Both risks however are managed and controlled by the RBBG's risk management units.

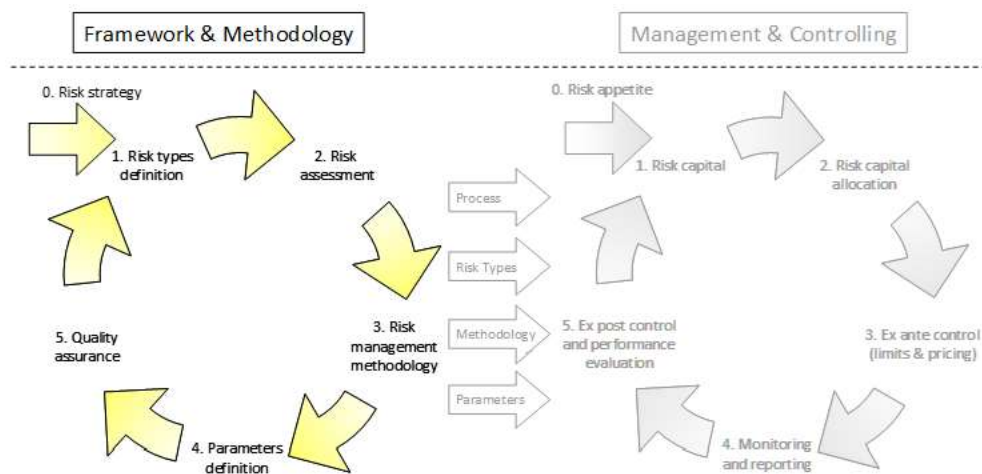
For some risks probabilities can be assigned to expected outcomes (specific uncertainty), for

other risks potential outcomes are completely unknown (general uncertainty). From a precautionary point of view, it is essential to avoid general uncertainty by requiring it to be reduced to a set of well-defined risk types.

Risk management and controlling (as business functions) are key instruments for overall bank management in RBBG. In addition to legal and regulatory requirements they take into account the particular nature, scale, and complexity of business activities and resulting risks. The responsibilities of overall bank management can be defined as managing costs, income, and risks which in particular arise from the special situation of banks as risk transformers. Taking risks as well as transforming risks is an integral part of banking business and operational risks are an inevitable consequence of being in business. RBBG therefore does not aim to eliminate all risks involved but tries to identify, evaluate, manage (accept, avoid, mitigate, transfer), monitor and report all material risks the bank is exposed to.

The implementation of instruments, methods, parameters and standards used to measure and monitor risks includes the:

- definition of methodologies and parameters for risk measurement;
- quantification of risk capital and risk taking capacity;
- implementation of risk measurement and risk controlling;
- organization and process design of risk management functions.



The **risk strategy** describes the planned business structure, strategic development, and business growth from a risk perspective. It sets specific risk policies (i.e. the rules of conduct

for handling risks), establishes a common understanding of the Bank's risk management goals, and thus it is a fundamental guideline for risk management and controlling. Such strategies are defined in the Risk Strategy and specific risk policies:

- Corporate credit policy;
- SE credit policy;
- PI credit risk policy;
- Micro credit policy;
- Market risk management rulebook;
- Policy for management of the liquidity and liquidity risk;
- Operational risk management policy;
- Treasury policy.

These policies shape the risk profile by specifying which risks the Bank in general takes (or avoids) and they describe organizational structures and processes which ensure that the Bank achieves the desired risk profile and adheres to it.

Another important policy is the definition of the Bank's risk appetite. It defines the amount of risk the Bank is going to take (e.g. balance sheet size, RWAs, funding gap) and the amount of available risk capital (e.g. equity, loan loss provisioning, profits). Throughout the annual bank - and group wide budgeting process, the risk limit setting also determines the share of risk capital that is used for absorbing quantifiable risks.

**Risk types definition:** Based on the current and future business structure we can identify the risks the Bank is exposed to, find precise risk definitions, and classify them according to the source of risk (according to their risk factors or risk drivers).

**Risk assessment:** In the risk assessment we analyse how much the value of the Bank might be affected by the defined risk types. Within the risk assessment we document whether risk types are material or immaterial for RBI Group.

**Risk management methodology:** The handling of specific risk types in more detail where the level of sophistication of these management and controlling techniques is chosen consistently with the materiality of a certain risk type.

**Parameters definition:** Hand in hand with selecting (statistical) risk quantification models as risk management tools comes the need for defining the required input parameters. For value-at-risk models these are most importantly the confidence level and assumed holding period (horizon).

**Quality assurance:** Last but not least it is necessary to establish processes in order to ensure the adherence to rules and regulations in place, the correct execution of defined processes, and high data quality.

The link between business orientation and risk orientation of the Bank is expressed through the risk appetite and specific risk targets, thus, framing the upcoming risk related business decisions. Furthermore, risk appetite defines a risk tolerance which is being transformed into business layers, including key strategic initiatives and business goals, risk limits and key performing indicators for the main risk categories.

The **Risk Appetite Framework** is based on the following key elements:

- **Risk Capacity:** The level of overall risk the bank can absorb before breaching regulatory requirements (and potentially become the subject of resolution).
- **Risk Profile:** Risk Profile is defined as the respective sum of the risk amounts for all quantified risk types in the ICAAP at a given reporting date.
- **Risk Tolerance:** The level of overall risk the bank is willing (or allowed by the regulator) to tolerate before it has to consider countermeasures.
- **Risk Appetite:** The planned and budgeted overall level of risk aligned with the business objectives. Given the volatility in financial markets and the economic environment, and the unpredictability of large singular risk events, the Risk Appetite as a percentage of the overall Risk Capacity should be set below the level of Risk Tolerance with a large enough cushion in order to avoid a frequent breaching of this warning level.
- **Economic Capital Allocation:** Based on risk capacity, risk tolerance and risk appetite goals and figures, an Economic Capital budgeting allocation process is performed on an annual basis.



- **Capital Forecast Calculation:** An early identification of potential risk drivers and capital developments is one of the key aspects of risk management.
- **Concentration Limits:** Concentration limits are calibrated and set for the relevant risk types in order to ensure that the Group's overall level of risk remains below the Risk Tolerance level in most circumstances and below the Risk Capacity in virtually any circumstance. Limiting concentration risks in their different dimensions is a key strategic objective.

### **Credit Risk Stress Testing**

Stress testing is a key risk management tool within financial institution. Stress testing is a useful instrument to help identify potential losses regarding retail credit portfolio and to measure a bank's resilience to adverse developments. A stress event can be defined as events that are "exceptional" yet "plausible" and affect business conditions in an adverse way. It is the express aim of stress testing to assess only effects of low probability, but, while stress events should have a low probability of occurring, they should not be too farfetched.

The retail credit risk stress testing covers the following types of stress-testing activities:

- **Level A Stress Testing** – simple, pre-defined sensitivity/scenario analysis testing
- **Level B Stress Testing** - advanced, macro-economic based stress testing where the sensitivity of RWA parameters is tested in relation to selected economic factors. The relation between the macro-economic factors and the RWA parameters is derived through macro-economic modelling.

### **Level A Stress Testing in Retail**

The Level A Stress Testing is mandatory for execution for RBBG as the Bank already has received an approval for retail AIRB approach for credit risk.

Major assumptions made in the level A stress test are:

- regardless of whether just one or several parameters are stressed, the impacts are applied simultaneously on the portfolio according to the pre-defined scope. The

outcome is calculated by substituting the original values with the "stressed" ones of all affected parameters into the RWA formula for IRB approach

- the simulation (the scenario) has an immediate effect on the portfolio for the selected cut-off date
- except for the stressed-parameters, all other characteristics of the portfolio (exposure, risk parameters, etc.) are assumed static
- the stressed parameters whose impact on the RWA is measured by the Level A Stress tests are the following:
  - Probability of Default (PD) - associated with the particular exposure and expressed as a percentage (Could be also a particular rating grade with which certain PD is associated)
  - Loss Given Default (LGD) - associated with the particular exposure/account and expressed as a percentage
  - Conversion Factor (CF) - the probability that an unutilized and still available credit limit will be utilized
- the stress scenarios can be simulated by directly assuming new values of the above-mentioned parameters (e.g. increase the original value of a parameter by certain percentage). Alternatively, the simulation of certain immediate developments of the portfolio structure could be done which eventually lead to changes in the above parameters
- migration of exposures with certain notch to other notch, which in consequence means replacing the PD value associated with the original notch with the PD value associated with the "new" notch
- default of certain exposures, which is a specific case of the previous bullet as the original PD value is replaced by 100% and the LGD is compared with the BEEL in order to estimate the RWA.
- the stress test scenarios are applicable only for the IRB-relevant portfolios.

**Scenario 1: Overall relative increase of PD by 40%.**

This stress test is based on the suggestion of the German Bundesbank that used a PD shift of 30% and 60% in the article: "Stress testing in the German banking system". It covers the BWG requirement to consider mild recession scenarios in the stress-testing program.

**Scenario 2: Migration of non-defaulted accounts by one notch**

This stress test is based on the requirement: "A credit institution shall assess migration in its ratings under the stress-test scenarios" in the EU Directive. Migration means replacing the PD value associated with the original notch with the PD value associated with the "new" notch.

**Scenario 3: Default of the top 1% of non-defaulted accounts, ordered by size of exposure**

This scenario provides an indication of the sensitivity of the Risk Weighted Assets and Expected Losses towards the concentration in the portfolio by selecting the accounts with largest exposures, which account for 1% of the total number of accounts, and simulating a default event for them.

**Scenario 4: Migration of the top 1% of non-defaulted accounts, based on exposure size, by 3 notches (no new defaults are assumed)**

Migration means replacing the PD value associated with the original notch with the PD value associated with the "new" notch.

**Scenario 5: Relative increase of LGD for all secured loans by 20%**

The scenario simulates a stress on the real estate market. As long as under the A-IRB approach collaterals are not directly taken into account for the RWA and EL calculation, the decrease of collateral market values is translated as impact on the potential recoveries of the secured exposures, hence their LGD is assumed to increase.

**Scenario 6: Increase of utilization of revolving products - relative increase of CF by 30%**

The CFs for all products within the Regulatory revolving asset class are increased by 30%. This stress test covers the recommendation for forward-looking stress tests.

**Scenario 7: Real Estate Crisis: relative increase of PD and LGD by 30% for Mortgage loans**

This scenario is intended to simulate a crisis on the real estate market. Generally, such a

crisis would be associated with increased default rate for the companies operating in the real estate sector and a drop of the value of the real estate assets.

**Scenario 8: Economic downturn: relative increase of PD, LGD and CF by 15%**

The scenario shows a moderate slowdown in economic conditions. For all IRB exposures all PDs are increased by 15%, all LGDs by 15% and all CFs by 15% as well.

**Scenario 9: Global Recession: CEE currencies depreciation against EUR by 30%.**

The scenario assumes relative PD, LGD and CF increase by 30% for CEE currency denominated loans (BAM, BYR, EEK, LVL, BGN, CZK, BGL, HUF, HRK, CSD, KZT, LTL, PLN, RON, RSD, RUB, RUR, SIT, SKK, UAH, UZS) and by 15% for all other currencies. The effect of the currency depreciation on exposure amounts is not considered here in line with the assumption for static balance sheet.

**Scenario 10: Default of the worst rating grade.**

This scenario gives a sensitivity about the effect of an immediate default of the worst rating grade. The impact in RWA and EL gives insight in size and loss sensitivity of such accounts.

**A-level Stress Tests in Non-retail**

A-level standard scenarios in Non-retail provide a detailed insight on portfolio sensitivity. The stress degree or portfolio scope does not have to be based on a specific economic forecast but rather on the effects on risk drivers given possible future events. Generally, a major risk parameter is subject to an extreme stress event revealing comprehensive information on the portfolio's and subportfolios' risk profile. There are three Standard Scenario types: 1. Rating & PD stress; 2. Collateral stress; 3. Concentration stress. Each type addresses a different area of sensitivity thereby allowing a holistic analysis of the portfolio's risk profile. Subsequent scenarios are designed as hypothetical scenarios supporting Risk Management in a sensitivity-based analysis to assess the portfolio's risk characteristics.:

1. Rating & PD Stress - this scenario type focuses on rating migrations and/or PD increases as the main risk parameter. The stress would result from unfavourable economic downturns leading to increased downgrades and/or PD increases.
2. Collateral Stress - the level of portfolio collateralization influences the amount of own funds requirements or more generally speaking the capability to withstand adverse economic scenarios. Hence the impact of adverse economic developments on the market value of existing collateral are an important part of the overall risk profile of the portfolio. As the Regulatory Credit Risk Stress Test addresses both Pillar 1 and Pillar 2 requirements, both the Nominal Collateral Value and the Weighted Collateral Value are subject to a stress. The following two scenarios address this sensitivity with one scenario using selective stress assumptions on the collateral market value per collateral type and the other scenario applying a market value stress equal for all collateral types.
3. Concentration Stress - the third component related to Standard Scenarios refers to concentration. The level of concentration within a portfolio is an important characteristic of its overall risk profile. For this purpose the respective portfolios' top customers are identified and subsequently submitted to specific stress events. Top customers are defined according to their credit exposure before application of a Credit Conversion Factor (EAD pre CCF). In order to make the concentration scenarios as meaningful as possible, the following exclusion criteria are used to identify the relevant top customers:
  - No defaulted customers;
  - Non credit risk relevant exposures excluded;
  - No dummy customers;
  - No Raiffeisen related customers;
  - No Clearing Institutes;
  - No other assets;
  - No customers with sovereign, multinational development bank or supranational character;
  - No intragroup customers.

### **Scenario 1: PD increase by 40%**

This Stress Test Scenario is based on the suggestion of the German Bundesbank that used a PD shift of 30% and 60% in its published article on "Stress testing in the German banking system". In order to account for increased PD values coming from an economic downturn a relative PD increase of 40% is applied on the overall portfolio.

**Scenario 2: Rating Downgrade by one notch**

Within this scenario a internal rating downgrade for all customers of one notch is performed with the constraint that no defaults are occurring. For rating models with 27 rating grades a one notch downgrade refers to a deterioration of 3 rating grades.

**Scenario 3: Collateral Stress**

The level of portfolio collateralization influences the amount of own funds requirements or more generally speaking the capability to withstand adverse economic scenarios. Hence the impact of adverse economic developments on the market value of existing collateral are an important part of the overall risk profile of the portfolio. The following two scenarios are applied: Market value for specific collateral types reduced based on expert opinion plus rating downgrade of all guarantors by 1 class and Market value for all funded collateral reduced by 20% while unfunded collateral (i.e. guarantees) were not changed.

**Scenario 4: Default of Top 3 RBBG customers**

In this scenario the three biggest customers based on total exposure are treated as defaulted having a critical impact on key capital measures. According to the currently applied default definition, if one customer is in default also all of its exposure is classified as defaulted.

**Scenario 5: Rating downgrade of Top 10 RBBG customers**

This concentration scenario assesses the impact on the capital position out of rating migrations given the portfolio's concentration. In a first step, the ten biggest customers based on overall exposure are identified. In a second step, identified customers are downgraded by three notches.

**Scenario 6: Default Top 3 RBBG unsecured customers**

This scenario identifies the three biggest customers based on unsecured exposure and treats them as defaulted. The Stress Test Scenario supports the analysis on the capital impact both out of low collateralization and high concentration.

**Scenario 7: Default of Top 3 Corporate customers**

In this scenario the three biggest Corporate customers based on total exposure are treated as defaulted having a critical impact on key capital measures.

**Scenario 8: Real Estate Crisis**

The Real Estate Crisis scenario is a hybrid insofar that both the market value of all real estate collateral (i.e. RRE and CRE) is decreased by 50% and the internal ratings of all counterparties in the real estate sector are decreased by one notch.

**Level B stress testing – Integrated and Reverse stress testing**

Raiffeisenbank (Bulgaria) EAD conducts integrated stress test and reverse stress test. Integrated stress test assesses the impact from adverse development of external environment on Bank's CET1 ratio in 3-year horizon, whereas the reverse stress test scenario represents a simulation of extremely negative circumstances on the default rate for all applicable portfolios leading to a breach of a predefined threshold on a CET 1 level.

Performed integrated stress test consists of two scenarios – baseline and adverse. The stress test incorporates assumptions for imposing shock on credit risk, market risk and operational risk as well as on the potential funding cost (in the adverse scenario). A static balance sheet assumption is applied throughout the simulation of both baseline and adverse scenarios. This means that no new loans are being issued and only the loan composition changes from performing to non-performing due to the defaulting exposures for the particular reference reporting year.

The macro variables used in the stress test for simulating RBBG's default rates for the next 3 years under the baseline scenario – the same as the ones used for IFRS 9 purposes baseline scenario are:

- **Gross Domestic Product (GDP):** a basic measure of a country's overall economic output and generated income
- **Consumer Price Index (CPI):** measures changes in the price level of a market basket of consumer goods and services purchased by households. The annual percentage change in CPI is used for retail business as a measure of inflation
- **Unemployment rate:** the percentage of the total labour force that is unemployed but actively seeks employment.

The reverse stress test scenario is used to assess the increase in default rates of the portfolio which will lead to a breach of the red threshold of RBBG Recovery Plan.

## SECTION B: OBJECTIVES AND RISK MANAGEMENT POLICIES

All identified risks are periodically evaluated and checked for relevance in accordance with the Internal Capital Adequacy Assessment Policy of Raiffeisenbank (Bulgaria) EAD.

Once a year, the Group conducts a comprehensive risk assessment based on a methodology validated for the entire RBI Group. Credit, market, liquidity and operational risk are subject to thorough control and analysis. For these types of risk, quantitative estimates have been developed and qualitative methods have been introduced to ensure that the Group's risk exposure does not exceed the assigned risk capital.

### CREDIT RISK

Credit risk is the risk of loss resulting from adverse changes in the creditworthiness of counterparties. Credit risk arises on credit exposures in all forms. It comprises the risk that debtors are not able to meet their payments (in height or time) due to default or out of other reasons (i.e. transfer or convertibility restrictions). Also the loss potential from credit migrations and deterioration of the financial situation of participations, in which the bank owns a stake, constitutes credit risk. In addition, the residual risk from credit risk mitigation techniques is seen as credit risk, as the collateral realisation in the case of default might not turn out to be as valuable as expected.

The Group categorizes the credit risk in seven sub-types:

- Default and Migration Risk
- Counterparty Credit Risk
- Credit Risk Concentrations
- Country Risk
- Participation Risk
- Securitization Risk
- Residual Risk in Credit Risk Mitigations



- Dilution Risk

**Default Risk** is the risk that a counterparty will not be able to fulfil contractually agreed financial obligations due to its default.

Default risk materializes as a non-payment or forced rescheduling of contractually agreed payments of a borrower. The economic loss in the case of default depends on several factors including product type, seniority, available guarantees, and value of collateral.

Defaults are reflected in the bank's balance sheet as specific or portfolio based provisions or as direct write-offs and therefore have an immediate effect on the income statement.

**Migration Risk** is the loss potential due to changes in the fair value of credit exposures as a result of rating transitions of borrowers.

This category covers the risk that an obligor with given credit rating might move into a lower rating grade during the risk horizon.

If the credit standing of a borrower is weakening, then the bank suffers losses on a fair value basis (opportunity principle) – these losses, however, typically are not to be disclosed in the income statement.

**Counterparty Credit Risk** denotes the risk that the counterparty to a derivative or similar transaction could default or deteriorate in credit quality before the final settlement of the transaction's cash flows.

This risk type is listed separately with its credit risk arising from counterparties in derivative instruments, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions. This type of credit risk is induced by market price movements (e.g. in swaps, forwards, etc.) and might be connected to wrong-way risk i.e. cases where the exposure increases when the credit quality of the counterparty decreases. Also, it typically involves special risk mitigation techniques (netting agreements, margin payments) which are not common in normal lending business.

**Concentration risk in Credit Portfolios** is the risk of suffering extreme losses from:

- an uneven distribution of exposures to counterparties;
- contagion effects between borrowers;

- sectoral concentration (industry, geographical region, etc.).

Credit risk concentrations can be pre-planned and be part of a bank's business strategy so as to benefit from information advantages. However, they also can lead to extreme losses that endanger the existence of the bank.

In the non-retail lending business concentrations are distinguished by the strength of dependencies into single-name concentration (portfolio granularity), concentrations in firms connected through business relations (micro contagion), and sectoral concentration (industry or geographical).

In the case of single-name concentration, enterprises that are likely to fail if one of them fails are classified as single risk entity (group of connected customers). Micro contagion risk (spill-over effects) takes weaker interdependencies, which cannot be explained by observable sector-dependent risk factors, into account. Sectoral concentration describes the weakest interdependency, namely the affiliation to the same economic or geographical sector.

In the retail segment concentrated lending in single product types, with common product characteristics, or uniform customer characteristics leads to concentrations.

Concentrations in single product types arise if loans are granted mainly in a narrow product category (e.g. second-lien mortgages, yacht leasing, etc.). Foreign currency loans or loans with repayment vehicles as common product characteristics increase the correlation of the creditworthiness of customers as well. In FCY loans, borrowers are exposed to exchange rate risk if they do not have revenues/income sources in the same foreign currency. Thus, foreign currency loans link the borrower's creditworthiness to a common factor (i.e. adverse movements in the exchange rate) like several other risk drivers in retail lending. Other specific customer characteristics that can lead to credit risk concentrations include for instance the borrowers' country of residence, their profession, or their employer (and in a weaker form also its industry sector).

**Country risk** is the risk of default on any foreign debt repayment of principal and/ or interest owing to developments within a country that affect its creditworthiness.

Country risk covers the risks involved in cross-border lending. Missed or delayed payments may either apply to any obligor domiciled in the country or to the sovereign itself. Country

risk includes transfer risk (prevention of payments by authorities), conversion risk (limiting access to sufficient foreign exchange) and moratorium risk.

**Participation risk** is the risk of a decrease in the value of equity participations, in which the bank owns a state below 50%.

Participation risk and counterparty risk have similar roots: the deteriorating financial situation (drop of profitability ratios, depleted reserves, insolvency, etc.) of a participation is reflected in a rating downgrade of the respective entity. In addition, country risk has an impact on participations in a foreign country.

**Securitization Risk** is the potential negative effect on the financial position of a bank which acts as **issuer/originator** under a securitization when (i) a securitisation arrangement is failing to operate as anticipated or (ii) a hedging counterparty under a securitisation transaction is not performing as anticipated. Securitization Risk for a bank acting as an **investor** refers to the risk of the values and risks transferred not emerging as expected.

**Residual Risk in Credit Risk Mitigations** is the risk of the bank's failure to realise the financial worth of transactions intended to mitigate credit risk.

Residual risk arising from credit risk mitigation (CRM) techniques (such as guarantees, collaterals, and credit derivatives) can result from the inability to realise payment from a guarantor in a timely manner, that the collateral will not turn out to be as valuable as expected, or from ineffective documentation (legal risks in CRM transactions are included under this risk heading whereas all other legal risks are seen as a component of operational risk).

Another residual risk arises if the risk of value of collateral or the default probability of a guarantor is correlated with the default probability of the obligor. This risk has its source in poorly structured transactions, for example, those collateralized by own or related party shares. But it also arises if the credit quality of the counterparty is correlated through some general macroeconomic factor to the creditworthiness of the guarantor.

**Dilution risk** is the risk of losses due to possibility that the receivable amount of purchased receivables is reduced through cash or non-cash credits to the receivable's obligor.

Dilution risk arises from the possibility that new debt issuances, made immediately before a customer's default, can dilute existing debts: those issues reduce the amount which can be

recovered by existing earlier debt-holders in the case of a default or restructuring.

Dilution risk applies only to purchased receivables; it is, for instance, an important risk factor for trade or credit card receivables, issues of asset-backed securities, and in sovereign debt contracts. Dilution risk arises from positions in the trading and banking book and materializes in losses from the need of provisioning or fair value accounting.

## MARKET RISK

**Market risk** is the risk arising from unexpected and unfavorable changes in market factors that affect the Bank's revenues or the value of the financial instruments in its portfolio. This includes interest rates, securities and commodity prices, exchange rates, credit spreads (not applicable to changes in the debtor's/issuer's credit situation) and correlations between them. The movements in negative direction of the above factors lead to a decrease in the market value of the Bank's assets.

Market risk may arise from a direct investment in a financial instrument as well as from an investment in a product whose value depends on the change in the value of market factors.

Market risk, therefore, arises from present value changes of on- and off-balance sheet positions in the Bank's Trading and Banking book. Depending on the accounting category and the method of accounting, market risk may influence the net result, interest income or directly on the capital of the bank.

**Interest rate risk** is the potential loss of adverse changes in the fair value of interest sensitive positions due to a change in market interest rates. Interest rate risk arises in the presence of exposure to interest-sensitive instruments. Interest rate risk also exists where there is an imbalance in the maturity structure of the interest-sensitive liabilities and assets.

The potential loss of interest rate change is calculated assuming that the debtor's solvency remains without a substantial change.

The potential loss arises from unfavorable movements of interest rates and change in the shape of the interest curve. Such movement affects the Bank's open interest positions as well as positions whose hedging is not effective.

From an accounting perspective the manifestation of interest rate risk may be different: it

can be reflected in reduced interest income (from items such as loans or financial assets at amortized cost), decrease of the trading result (for instruments in the trading book) or other comprehensive income (for financial assets at fair value through other comprehensive income), etc.

Traditionally, interest rate risk can be categorized into:

- Risk of changes the interest curve (changes in rates, slope, and shape of the curve).
- Risk of mismatch in the interest structure of assets and liabilities
- Basis risk (risk arising from imperfect correlation between interest rate levels of different instruments resulting in term differences or differences of reset frequency, etc.)
- Option risk (value of interest options that are embedded in the standard instruments or purchased as standalone instruments in the Bank's portfolio)

**Credit spread risk** is the risk of negative changes in the value of the Bank's positions in debt instruments because of an unexpected change in credit spreads.

The credit spread risk arises from the change in the risk appetite of investors, which influences the market price, leading to narrowing or widening of credit spreads. If the likelihood that the issuer of the debt security will fail to meet the obligation to pay the coupon payments, as well as the principal itself, rises, the market reacts by requiring higher yield compared to the risk-free curve.

**Currency risk** is the risk of negative changes in the value of foreign currency positions arising from changes in the exchange rate. Positions in foreign currencies /as well as in gold and silver/ lead to currency risk and have an immediate effect on the current and potential cash flows of the Bank in a currency other than the local.

The value of the portfolio is sensitive to changes in exchange rates if there are positions denominated in other than the base currency. Currency risk arises from both Banking and Trading book positions. Currency risk is reflected in the balance sheet and the income statement of the Bank since its assets and liabilities are subject to daily revaluation.

**Basis risk** is defined as the risk that remains when a particular position is offset by a position in another product where a different interest curve is used as the basis for the

valuation of the position.

**Sovereign Basis risks:** The risk of the spread between the government treasury bond yield curve and a general interest rate curve (deposits/fixings, swaps).

**General Basis risks:** The basis risks remaining when one position is offset by a similar position in a different product where different specific interest rate curves are used for the valuation of the two positions. (Swap rates – 6m Euribor) as well as additional product-inherent market differences.

**Equity price risk** is a risk of potential loss from adverse price movements of equity instruments or other direct or indirect investments of the Bank, which are classified as a Trading book. Exposures in stocks, stock derivatives or indices, exposures in contractual funds, etc. are exposed to this type of risk.

In practice the management of this type of risks requires three main VaR methods: variance/covariance, historical simulation, and Monte Carlo simulation.

**Commodity prices risk** is the risk of potential loss due to adverse price movements of commodities traded on the stock exchanges: metals, oil, gas, etc.

**Volatility risk** is the risk of potential loss caused by adverse changes in the value of an instrument due to a change in market expectations for future movements/price changes in a market factor.

This market risk category is mainly reflected in the price change of instruments that have an asymmetric risk profile, i.e. especially options.

Market risk is managed by the Market Risk Management department. On the one hand, Treasury departments (Capital Markets and Asset and Liability Management) organize their own trade (for example, they manage the Bank's Trading book) and, on the other, manage the market risks of positions in the Banking book (which risks should be transferred to the Asset and Liability Management Department). Raiffeisenbank (Bulgaria) EAD takes market risks through its departments:

- Trading Department (part of Capital Markets Division)

- Treasury / Asset and Liability Management Department (part of Finance Division)

Under the organizational structure and functional responsibilities, the Capital Markets Sales department (part of Capital markets division) implements all transactions that are related to sales of financial instruments to corporate clients and individuals, while transactions on behalf of the Bank are concluded by the Trading department including derivative transactions on a back-to-back basis, which are reciprocal to those concluded with corporate clients, purchase and sale of securities for the Trading book account, as well as at the request of the Treasury/asset Management department for the account of Bank's Banking book portfolio. The responsibilities of the Trading department also include the management of the currency position of the bank, money market transactions, etc.

All the activities related to the proprietary trading process for own account and the management of positions in the Trading and Banking books are carried out according to the current risk strategy and within the defined risk appetite of the Bank and their approved for this purpose limits.

The Market and Liquidity Risk Management Section under Market, Liquidity and Operational Risk Controlling department organizes the process of preventive ex-ante and ex-post market risk control at the Bank.

The Market risk is monitored through a strict limit system, consisting of currency, interest rate, price risk and credit spread limits.

The Limits for open positions depend on the Economic capital allocated for market risk. In addition to VaR limits, interest rate sensitivity (BPV), Stop Loss and Warning/activation (Soft Stop Loss Limits) are also applied.

All market risk limits are determined and submitted by Raiffeisenbank (Bulgaria) EAD but are also aligned and approved in Raiffeisen Bank International AG during a standardized process for application and approval.

All internal limits are valid until they are revoked (or replaced by new ones) or a ban by the Group Risk Committee or the Group Market Risk Committee. Limits which have been provisionally introduced will be abolished as specified, unless submitted and approved by the Group Risk Committee or the Group Market Risk Committee for a provisional application

for extension. Group market risk limits are reviewed by the RBI Market Risk unit in coordination with the RBI-Treasury units (for all Treasury/ALM limits and general limits for the RBI Group) and Capital Markets (for all interbank market limits). An Annual review shall also be conducted if the strategy or allocated economic capital for market risk does not change.

In addition, a review and update of the Market risk limits is carried out at least once a year, taking into account both the new budget figures and/or any changes in the defined risk appetite and to adjust the current limits to the new and/or the amended business strategies.

About interest rate risk in the Banking book, the Bank applies a combination of the most common techniques to measure the risk of the change in the economic value of assets/liabilities resulting from changes in the interest rates. The Bank's interest exposures are managed using reports of interest-rate sensitivity of assets and liabilities. The techniques for monitoring and managing interest rate risk are mainly based on maturity tables and tables reflecting the dates of subsequent interest rate changes in the relevant currency, according to the market conditions for the floating rate instruments. As part of the limit system, the possible deviations are transformed into limits.

The Bank's Risk appetite for market risk is defined in the highest hierarchical internal documents of RBBG, setting the objectives and determining how to achieve them, as well as the potential exposure to Market risk, as one of the significant risks to the financial institution that were identified.

The fundamental documents for the determination of the Risk appetite are the three-year overall strategy for the development of RBBG (updated once a year and applied after final approval of the Supervisory Board of the Bank), as well as the relevant strategies for trading and investing in instruments with inherent market risk.

After the initial definition of the Risk appetite, any subsequent updates of the strategic documents shall be reflected in the former.

The subsequent impact of the respective Risk appetite is also observed in the range of products offered, as well as by the new products offered to customers by the RBBG, as well



as in the annual budgeting process.

## LIQUIDITY RISK

**Liquidity risk** stems from the transformation of the term and currency structure of the Bank's assets and liabilities. For example, in the standard commercial banking industry, this is the case when short-term liabilities (deposits) or part of them are used to finance assets with longer maturity (loans). In this case, the need for liquid funds in the Bank (to cover the cash outflows) could exceed the cash inflows. A similar problem can also occur in cases where currencies are not freely convertible into each other and at the same time cash inflows into a given currency are not sufficient to cover the cash outflows in the same currency. This is the risk associated with the internal activity and management of the Bank's balance. Liquidity risk also arises in the impossibility of responding adequately to changes in market conditions that affect the ability of quick asset transformation into cash and with minimal loss of value, including the inability to manage unplanned reductions or changes in funding sources. The latter represents the risk associated with the external economic and market situation.

For the purposes of liquidity risk management, the Bank distinguishes the following types of liquidity risk:

- Short-term liquidity risk.
- Funding liquidity risk.

**Short-term liquidity risk** – this type of risk is defined as the risk of losses caused by unforeseen mismatch of cash inflows and outflows (e.g. in mass withdrawals or lending crisis).

Short-term liquidity risk management is based on structural constraints, as well as active monitoring and careful analysis of future cash inflows and outflows in maturity bands. In the case of "opening" of the so-called liquidity imbalances, depending on their significance and time horizon, procedures and plans to address the situation are triggered.

Short-term liquidity risk is measured based on the traditional approach to calculate liquidity imbalances for a given period and currency.

Liquidity imbalances are calculated based on cash inflows and outflows from on-balance

sheet and off-balance sheet items giving rise to cash movements. However, from a liquidity management point of view, it is essential to distinguish between the planned (contractual) cash flows and the real ones. Distinguishing among these two categories makes liquidity management very complex. On the one hand, any significant deviations from the contractually agreed cash outflows should be taken into account (part of the deposits, for example, may be renewed on the day of maturity or withdrawn early), and on the other should carefully assess the uncertainty inherent in cash inflows. The situation is further complicated when it comes to assets and liabilities without a specific contractually agreed maturity. Those cash flows can be predicted based on the customer's behavioral patterns. The purpose of the development of such models is to predict the real cash flows, which in turn are used in the process of calculating liquidity imbalances. The framework considers the specific features and historical observations of the positions of each bank in the Group. Liquidity imbalances, including accepted "saleability" and "stickiness" ratios, are subject to strict monitoring and limitations. In addition, for cumulative liquidity imbalances in the "Going concern" scenario, as a percentage of the balance sheet, limits were introduced at different maturity intervals.

To ensure effective liquidity management in times of crisis, the Bank conducts stress tests that demonstrate its readiness and ability to cope with stressful situations, both in terms of market environment and in terms of intrinsic liquidity shocks. To survive such shocks, the Bank structures and maintains liquidity buffers in the form of cash balances and other liquid assets that are intended to provide a survival period of at least 90 days on a common level, and up to a minimum of 30 days for each significant currency separately.

To ensure timely liquidity in the event of a liquidity crisis, the Bank strives to continuously optimize its ratio of the total amount of highly liquid assets to the total liabilities. The Concentration of the wholesale funding is limited by a special concept at Group level – "Funding Concentration Risk". The latter offers maximum conservative treatment and influences the results of the liquidity stress test, as it does not encourage the attracting of significant funding from single counterparty.

The Bank's Liquid assets include cash and cash balances with the Central bank, current accounts with other banks and interbank deposits up to 7 days, marketable debt securities

issued by central governments or Central banks, Treasury bills and bonds of the Government of the Republic of Bulgaria, marketable debt securities issued by institutions with a top-notch credit rating, marketable debt securities issued by international development banks and international organizations. Encumbered assets at the end of 2021 were totaling 186 million BGN compared to 171 million BGN at the end of 2020.

Based on the Regulation (EU) 2017/2114 (see letter BNB-03083/10.01.2018) the Maturity ladder reporting from iALM3 is applied in RBBG.

Based on art. 412, § 5 of Regulation (EU) 575/2013 the Liquidity Coverage Ratio (LCR) is applied in accordance with art. 460, § 2 of Regulation (EU) 575/2013.

The liquidity indicators - LCR and NSFR are all reported on individual level due to calculation specifics in Tables EU LIQ1 and EU LIQ2 in the Disclosure Annex

In accordance with Regulation (EU) No 575/2013, the liquidity coverage ratio (LCR) is included in the liquidity risk management framework, measuring the Bank's ability to meet its liquidity needs in an unfavorable scenario for 30 Days. During the year, the Bank maintained LCR values above the limits. The liquidity coverage ratio at the end of the 2021 amounts to 265%. There are no limit violations during 2021.

On a quarterly basis, the Net Stable Funding Ratio (NSFR) is also monitored, focusing on the availability of sufficient medium-term and long-term funding. At the end of 2021 it amounts to 143%.

The value of the ratio significantly exceeds minimum regulatory requirement of 100%, which supports the ability of the Bank to maintain its operations, while at the same time ensures stable assets and liabilities maturity structure. There are no limit violations during 2021.

In addition to the overall liquidity management framework, the Bank is developing a system of early indicators that aims to identify possible liquidity crises in a timely manner. In this way the optimum level of effectiveness of the applicable countermeasures is achieved.

Contingency plans have also been developed as an integral part of the tool kit to deal with crisis conditions.

The liquidity contingency plan describes the role of the different departments, the events leading to the declaration or cancellation of the liquidity crisis, respectively its level (three levels defined) and possible actions to address the deteriorated situation. The Plans include a clear definition of the tasks and responsibilities of the individual units as well as the information and communication flows within the Bank.

The Bank also prepares a Recovery plan in accordance with the requirements of Ordinance 7 of BNB and Directive 2014/59/EU.

The Plan includes a set of early signaling indicators designed to recognize the first signs of stressful situations, as well as a range of measures that could be taken to keep the Bank's stable position in the long term.

**Funding risk/Risk of funding cost increase** – This risk occurs when there is a need to secure liquidity under in unfavorable conditions, for example stemming from change the Bank's credit spread, i.e. the price of funding changes and the Bank's assets or commitments are not financed by liabilities with a similar maturity structure. This would lead to a substantial increase in the cost of funding the Bank's activities.

As the rating is awarded by rating agencies, the Bank manages this type of risk by focusing on the elements influencing the rating assessment of the agencies:

- Generating sustainable profitability.
- Limiting the possibility of not achieving the results previously identified.
- Ensure the Bank's resilience in accordance with the pre-defined target rating.

On a Group level, a quantitative and qualitative tool kit of indicators is applied that serves to target and monitor the Group's ability to generate income.

The Bank quantifies the risk of securing funding through a VaR model (value at risk with a holding period of 1 year and a confidence interval of 99.90%) aiming to measure the potential loss from the closure of current open liquidity imbalances (over 1 year) at a higher cost. It follows that the funding risk depends on the following components:

- The liquidity imbalances of the Bank for each separate maturity interval.
- The future, hypothetical, costs necessary to procure funding to cover liquidity

imbalances.

The Bank prepares each year a plan to secure resources and strategy for the next three calendar years.

A particular attention is paid to ensuring a diversified funding base.

To reduce liquidity risk, the Bank develops a Financing Strategy that allows more flexible liquidity management within the year.

The entire liquidity risk management framework and toolbox is duly described in the Bank's internal procedures and policies. They shall be updated regularly or when circumstances require so.

## OPERATIONAL RISK

Operational Risk is defined as the risk of loss resulting from inadequate or poorly functioning internal processes, people, and systems or from external events.

Model risk (the risk that models used during bank-wide risk management or their application may not be suited for achieving their intended purpose) is covered implicitly in the Operational Risk subcategories

Legal Risk comprises the risks due to non-observance of legal or statutory requirements and/or inaccurately drafted contracts and their execution due to ignorance, lack of diligence in applying the respective law or a delay in reacting to changes in legal framework conditions. Non-observance due to ignorance is also considered an operational risk where the actual legal situation and the Raiffeisenbank (Bulgaria) EAD and its subsidiaries' own assessment of it diverge without fault or when these are unavoidable. For example, in the event of an unexpected change in jurisdiction or on the entry into force of new legal provisions, either of which has retroactive effect on existing legal relations. Legal risk is a component of Operational Risk.

Conduct risk is the risk associated with bank's losses arising from an inappropriate, unethical, or unlawful behavior (including cases of willful or negligent misconduct) in the process of supply of financial services. Conduct risk is the risk of inappropriate, unethical, or unlawful behavior on the part of an organization's management or employees. Such risk can

be caused by deliberate actions or may be inadvertent and caused by inadequacies in an organization's practices, frameworks, or training programs

#### SECTION C: INFORMATION ON GOVERNANCE RULES

The Supervisory Board of Raiffeisenbank (Bulgaria) EAD pledges and approves the Bank's objectives. The Managing Board of the Bank is responsible for the fulfillment of these objectives, for the establishment of an appropriate organizational structure and for the timely development of an effective risk management function, for the adequate risk monitoring and control.

Although the Management Board may delegate some of its authorities, it remains exclusively responsible for all these activities.

The Management Board of Raiffeisenbank (Bulgaria) EAD is responsible for the development of a specific comprehensive risk management strategy and the implementation of risk management policies. The Management Board decides which procedures are to be developed for risk identification, measurement and control. It also takes specific management decisions on the basis of the prepared reports and risk analyses. The Management Board is assisted by the relevant departments and risk committees.

#### RISK MANAGEMENT FUNCTIONS UNDER CRO/CFO

Risk management units have the objective to optimise the risk profile of their supervised portfolios in defined risk categories. They develop, define, and implement tools, parameters, and methodologies used to analyse risks in business transactions and for managing portfolio risks; also, they define procedures to be followed in the process of underwriting risk.

The risk management units aim at optimization of the risk profile of portfolios managed by them in accordance with the defined risk categories. They develop, set and implement the tools, parameters and methodology for analysis of business transactions and management of risks associated with each respective portfolio. The responsible officers from the risk management units take active part in the process of establishment of procedures to be implemented during the transaction negotiation.

Two main risk functions exist in the risk management process:

- **The Risk management function** is responsibility of all units under the Risk management board area and comprises of the following main activities:
  - Define and implement the risk management strategy for the respective business segment/portfolio.
  - Develop, set and implement the risk management methods and processes (such as rating models, assessment of collaterals, competence levels, etc.).
  - Ensure that all Group and best practice standards with regard to the risk management methods, policies, practices and the respective tools are implemented across all business levels.
  - Approve counterpart limits, other limits, and all new products according to defined competence authorities.
  - Second level of approval of a certain business decision (client rating, etc.).
  - Actively manage the risk (portfolio management, risk mitigation, diversification and portfolio analysis) in accordance with the approved budget and available risk taking capacity.
- **The risk control function establishes** the general control and monitoring framework of various types of risk on an aggregated level. Its purpose is to coordinate the implementation of the instruments, methods, parameters and risk evaluation and monitoring standards so as to avoid risk situations and improve the risk / return ratio within the risk limits. This includes:
  - Definition of the risk assessment methodology and parameters (such as credit and market VaR models, impairment, stress tests, concentrations).
  - Implementation of risk assessment and control tools (for example ensuring the abidance by limits and risk parameters).
  - Risk measurement, monitoring and preparation of reports on all types of risk on an aggregated level.
  - Drawing up of proposals for risk cost and capital allocation.

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- Budgeting and Forecasting risk costs, risk-weighted assets, funds-transfer pricing.
- Actively communicate Risk related activities and methodology in front of the local supervisor and defend applied solutions. Carries out being compliant to all requirements posed by local legislation.
- Monitoring of the counterparty limits.
- Capital management activity – to ensure adequate internal and regulatory capital to cover all risks taken as well as to avoid the overcapitalization in order to ensure optimal employment of the shareholders' capital.
- Carrying out scenario analyses and stress tests in order to test the impact of extreme and severe crises on the bank's positions.
- Regarding the definition of methodologies and parameters the controlling function coordinates itself closely with the respective risk management functions.
- Support the implementation of risk related IT solutions.

The structure below shows the functional allocation of the different risk management departments / divisions according to the risk category they manage:

<b>Risk Management – Risk categories and division functions</b>	
<b>Credit Risk</b>	Risk Management Division – Corporate Banking
	Rik Management Division – Retail Banking
	Risk Controlling Division
	Problem Loans Department
<b>Market Risk</b>	Risk Controlling Division
<b>Operational Risk</b>	Risk Controlling Division
<b>Liquidity Risk</b>	Risk Controlling Division



## RISK MANAGEMENT COMMITTEES

Risk Management committees in Raiffeisenbank (Bulgaria) EAD consist of representatives of all units dealing with risk management. Meetings are held regularly to make decisions on risk management related issues. The following committees are active in the Bank:

**Assets and Liabilities Management Committee** is responsible for the overall management of the Bank's balance sheet. It monitors the interest sensitivity and the structural liquidity of the bank.

**Credit Committee** has the authority to approve limits and credit reviews for RBBG. The credit exposures/limits exceeding the local authorities of RBBG are referred for approval by the Supervisory Board of the Bank.

**Operational Risk Management & Control Committee** is a specialized internal body of Raiffeisen Bulgaria Group in the area of operational risk management and internal controls (ICS). The MB, as a supreme management body of operational risk in Raiffeisen Bulgaria Group, has delegated certain functions and responsibilities to the Operational Risk Management & Control Committee.

**Problem Loans Committee** is the ultimate decision body for all problematic exposures in RBBG. Problem Loan Committee decisions are made in order to achieve the highest Net Present Value of the RBBG's receivables also considering the risks involved for each workout strategy.

In certain cases, as specified in the PLC Bylaws, the applications and credit reviews shall be approved by the Executive Credit Committee (ECC) or by the SB.

**Fraud Committee** is a specialized internal body of the management of RBBG in the area of management and control of the fraud risk. The Fraud committee is responsible for considering and making decisions regarding questions of a general nature, a comprehensive strategy to combat fraud and technical and organisational measures. Making proposals or order to improve structures and processes. Determination of expert team for investigation of complex fraud cases. In important cases of fraud, make recommendations to the Board including proposals for decision-making and lessons learned.

The primarily purpose of the **Risk Governance Committee** is to provide oversight, review

and approval of the Bank and its subsidiaries' risk management activities in respect to RBBG Risk profile, Risk governance, Risk tolerance, Risk appetite framework and applied for all material risks, account, pool and portfolio level models. In fulfilling the above function, it shall monitor and continuously improve the overall risk management framework, promote sound risk governance and foster an effective risk culture throughout the Bank.

The Committee reviews policies, procedures, rules and practices related to the applied by RBBG Economic capital Model and Stress testing, as well as reviews and approves the results and scenarios for Stress testing and reviews and approves the results of Validation for all models through the model lifecycle (initial validation, regular monitoring of the performance and periodic validation). It assesses the Bank's compliance with Group regulations and analyses the effects of regulatory changes. Risk Governance Committee ensures comprehensive risk identification, measurement, monitoring and timely implementation of remedial actions. It is responsible for the definition of risk-related parameters, assumptions, forecasts and trends.

#### **PI/ Micro/ Corporate Portfolio Committee**

**Data Governance Operational Steering Committee** is an operational decision making body for RBBG towards overall Data Governance and BCBS 239 compliance management. It oversees rules, regulations, processes and roles that are established in order to manage operational issues related to Data Governance and BCBS 239 principles and monitors Data Quality performance statistics, Data Quality Defect management statistics, operational incidents and issues related to Data Quality.

**Management Board** defines the policy and strategy of the Bank, makes decisions on all proposals of the committee for management of the respective risk type (such as allocating capital and budgeting, approval of limits, etc.).

**SB Risk Committee** as per CRD IV has been established.

#### MACRO-PRUDENTIAL SUPERVISION

Implementation of the global regulatory framework Basel III in European legislation through Directive 2013/36/ EU (CRD IV) has established 5 additional capital buffers, applicable for Credit institutions:

- **Capital conservation buffer**

The reason for implementation of a capital conservation buffer is future avoidance of using state aid, when a bank experience financial difficulties, i.e. taxpayer's money for support of troubled banks. This buffer provides additional resources, where necessary for recovery and resolution of financial institutions in times of crisis. The capital conservation buffer of Common Equity Tier 1 (CET1) should be maintained to 2,5% of the total amount of their overall risk exposure.

- **Bank-specific countercyclical capital buffer**

The countercyclical capital buffer is a macroprudential instrument introduced in BNB Ordinance No. 8 on Banks' Capital Buffers, in accordance with the requirements of Directive 2013/36/EU. The main purpose of the buffer is to safeguard the banking system against potential losses, stemming from build-up of cyclical systemic risk during periods of excessive credit growth. As of Q4 2021 the level of the countercyclical capital buffer is 0.5%.

On 16 September 2021, the BNB Governing Council increased the countercyclical capital buffer rate, applicable to credit risk exposures in the Republic of Bulgaria, at 1.0% in effect from 1 October 2022. The countercyclical capital buffer rate, applicable to credit risk exposures in the Republic of Bulgaria, remains at 0.5% until the end of 2022 Q3. On 16 December 2021, the BNB Governing Council increased the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria from 1.0% to 1.5% in effect from 1 January 2023.

- **Systemic risk buffer**

The aim of the systemic risk buffer is maintaining the capital reserves built up so far in the banking system, as well as preventing and mitigating long-term non-cyclical systemic or macroprudential risks, which could cause disruption in the financial system. The systemic risk buffer is 3% of the risk-weighted exposures, which should be covered by CET1 capital, at the discretion of the Bulgarian National Bank it may also be applied to exposures in third countries. The BNB Governing Council with its decision confirmed the requirement to all banks to maintain a systemic risk buffer of 3% of their risk exposures in Bulgaria. The systemic risk buffer thus set is cumulative

to the buffer for other systemically important institutions (O-SII buffer) in accordance with art. 15 of Ordinance No. 8.

- **Buffer for global systemically important institutions - G-SII buffer and Buffer for other systemically important institutions - O-SII buffer**

The buffer for other systemically important institutions (O-SIIs) is a macroprudential measure with preventive character that is aimed at banks with systemic importance. The goal of the buffer is to strengthen the capacity of O-SIIs to absorb losses and accordingly to limit the contagion risks stemming from potential stress event in a systemically important bank to other credit institutions or the banking system as a whole. With the higher capital requirements the resilience of the systemic institutions to adverse shocks is enhanced and the normal functioning of the banking system, even in times of significant unexpected future losses, is ensured.

The BNB Governing Council set a buffer for O-SIIs in accordance with art. 11, paragraph 1 of the BNB Ordinance No. 8 on an individual and on consolidated basis, applicable to the total risk exposure amount at the level of 0.25% applicable from 1-st January 2018 and 0.5% applicable from 1-st January 2019. From 1-st January 2021 the buffer for O-SIIs, applicable for RBBG, is set at the level of 0.75%.

According to the latest SREP assessment process, RBBG's internal practice and policies for risk management are found to be sound and clear for both capital and liquidity management and in that respect the bank received the SREP joint decision advising 0% capital add-on., effective from 1st of March 2022.

#### 4. INFORMATION ON THE SCOPE OF THE REGULATORY FRAMEWORK AND METHODS OF CONSOLIDATION – ARTICLE 436

The disclosure is prepared consolidating all financial institutions and Special Purpose Vehicles (SPVs) in which the Bank has either control over or significant influence. The equity participations in organizations other than those listed below are not subject to consolidation for the means of this disclosure.

The consolidation methods used in the current disclosure according to regulatory

requirements and those used in the public financial reports of the Group according to International Financial Reporting Standards are as follows:

	<b>Equity participations as of 31.12.2021</b>	<b>Consolidation method (public)</b>	<b>Consolidation method (regulatory)</b>
<b>Raiffeisen Service EOOD</b>	100%	Full consolidation	Full consolidation
<b>Raiffeisen Asset Management EAD</b>	100%	Full consolidation	Full consolidation
<b>Raiffeisen Insurance Broker EOOD as participation of RLBG</b>	100%	Full consolidation	Full consolidation
<b>Raiffeisen Leasing OOD</b>	100%	Full consolidation	Full consolidation

In the Pillar 3 Annex could be find the following reports:

<a href="#">EU LI1</a>	Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories
<a href="#">EU LI2</a>	Main sources of differences between regulatory exposure amounts and carrying values in financial statements
<a href="#">EU LI3</a>	Outline of the differences in the scopes of consolidation (entity by entity)

No differences as of Dec. 2021 are observed.

## 5. OWN FUNDS – ARTICLE 437

The elements of own funds of Raiffeisenbank Bulgaria is reported in the Pillar3 Annex, **EU CC1** - Composition of regulatory own funds, as well the reconciliation with Balance sheet in **EU CC2**. Own funds of RBBG as of 31.12.2021 consist of:

- Tier 1 Capital – share capital and reserves
- Tier 2 Capital – subordinated debt

The following are deducted form own funds:

- Intangible assets with the exception of prudently valued software assets the value of which is not negatively affected by resolution, insolvency or liquidation of the institution
- Deduction of negative amounts resulting from calculation of expected loss amounts

The deductions from own funds are based on and in compliance with Ordinance №7 of the Bulgarian National Bank and Regulation (EU) №575/2013.

Detailed information about capital instruments could be find in Pillar 3 Annex

<a href="#">EU CCA</a>	Main features of regulatory own funds instruments and eligible liabilities instruments
<a href="#">EU CCA1</a>	Main features of regulatory own funds instruments and eligible liabilities instruments
<a href="#">EU CCA2</a>	Main features of regulatory own funds instruments and eligible liabilities instruments
<a href="#">EU CCA3</a>	Main features of regulatory own funds instruments and eligible liabilities instruments
<a href="#">EU CCA4</a>	Main features of regulatory own funds instruments and eligible liabilities instruments

## 6. CAPITAL REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS – ARTICLE 438

As of 01.11.2014 Raiffeisenbank (Bulgaria) EAD has been granted permission to apply Internal Rating Based Approach for calculating and managing the Credit risk on Bank level, according to the up-to-date banking regulatory requirements - Regulation (EU) 575/2013 of the European Parliament and the Council of the EU on prudential requirements for credit institutions and investment firms.

For Market and Operational risk, the Bank applies Standardized Approach.

Risk weighted assets are calculated based on the exposure classes considering the respective credit, market, and interest rate risk as well as the available collaterals and guarantees. The approach is similar when risk weighted assets are calculated for the off-balance sheet exposures including that a credit conversion factor (CCF) is applied to the respective type of commitment measuring the probability of the such to be drawn.

The scope of the own funds requirements for Credit risk includes Credit risk, Counterparty credit risk and Dilution risk of the Banking book.

The scope of the own funds requirements for Market risk includes Market risk of the Trading book as well as Exchange rate risk and Commodities risk for both Banking and Trading books.

Since the beginning of 2012, the Bank applies the Standardized Approach for calculating the

own funds requirements for operational risk.

During the reporting year 2021 the Bank remained compliant to all own funds requirements and has kept its Capital Adequacy Ratio above the minimum regulatory requirements.

Since April 2022 RBBG will start using Standardized approach for Credit Risk after the official approval of ECB and BNB.

Further Quantitative information is reported in the Pillar3 Annex:

<a href="#">EU OV1</a>	Overview of risk weighted exposure amounts
<a href="#">EU KM1</a>	Key metrics template
<a href="#">EU INS1</a>	Insurance participations – not applicable
<a href="#">EU OVC</a>	ICAAP information, continues in chapter 7.
<a href="#">EU CR10</a>	Specialised lending and equity exposures under the simple riskweighted approach

The specialized lending exposures (slotting approach) in Project Finance as of 31.12.2021 are split only into regulatory categories 1 and 2. The total on-balance sheet exposures amount to BGN 157 mn. In Category 1 the reported on-balance sheet amount comprises of 32% of the total on-balance sheet specialized lending exposure. The remaining 68% are part of Category 2 and Category 3. The total off-balance sheet exposure equals to BGN 76 mn., of which 43% are categorized in Category 1 and 57% mainly in Category 2. The specialized lending RWAs are BGN 133 BGN mn.

## 7. INTERNAL CAPITAL ADEQUACY ASSESSMENT – ARTICLE 438

Raiffeisenbank Bulgaria defines the respective capital used for covering losses regarding subsequent Pillar 2 items – Internal Capital and Risk-Taking Capacity.

Based on Principle 5 (Internal capital is of high quality and clearly defined) of the “ECB Guide to the internal capital adequacy assessment process (ICAAP)” stipulating that the internal capital is of high quality and clearly defined, RBBG and RBI group defines the respective Internal its utilisation for the economic perspective as well as the respective capital used to cover potential losses within the normative perspective (Stress Testing scenarios).

The general target of the respective capital definition is to ensure high quality of all components and to fulfil the Principle 5 of the ECB Guide.

With regards to the economic perspective, the Bank is applying two different perspectives (As these two perspectives have different confidence levels in regard to their covered risk types (99.9% vs. 95%), capital composition is different too.

## INTERNAL CAPITAL

Internal capital is the capital amount available to cover risks in the Economic Capital approach.

To fulfil Principle 5 of the "ECB Guide", the definition of internal capital uses regulatory own funds, excluding any Tier 2 Capital positions. Respectively, Raiffeisenbank (Bulgaria) EAD internal capital consists of:

- Common Equity Tier 1 Capital.
- Additional Tier 1 Capital.

The graph below outlines the main calculation principles to determine internal capital on RBI Group level:



- CET1 after deductions and Planned Dividend payments

CET1 after deductions is based on respective regulatory Reporting of own funds. This means, several deduction items are already considered (e.g. deduction of intangible assets). CET 1 includes subscribed capital, capital reserves, retained earnings and is core component of the



internal capital of the Bank.

- Accrued Consolidated Profit

Accrued Consolidated profits (losses) which are not considered in regulatory CET1 positions of the current reference period but exclude any expected profits until the end of the remaining planning/reporting period. This amount is calculated periodically while preparing the Bank's regular income statement.

- Additional Tier 1

AT 1 Instruments means any (directly or indirectly issued) capital instruments that qualify as Additional Tier 1 instruments pursuant to Article 52 CRR, including any capital instruments that qualify as Additional Tier 1 instruments pursuant to transitional provisions under the CRR.

- Deductions of T2 Capital

From regulatory perspective, additional deduction items exist on T2 capital (acc. CRR Art. 66). The respective positions are deducted from Gross Internal Capital.

- Hidden Losses and Shortfalls

Hidden Losses could exist in the case that there exist negative differences of fair value and book value of asset and liability positions.

Shortfall: In case, loss provisions from Bank's portfolio are lower than its expected losses, the respective shortfall amount (Loss provisions versus Expected loss) is deducted from Gross Internal Capital. A respective excess of provisions over expected loss is not considered in Gross Internal capital.

Calculation of Excess/Shortfall for Internal Capital:

- Calculation of excess/shortfall from PLLP vs. EL from performing portfolio, capped by 0.6% of credit EC \* 12.5
- Calculation of excess/shortfall from ILLP vs. EL from non-performing portfolio, capped by 0.6% of credit EC \* 12.5

- Earnings Risk

Earnings risk stemming from immediate change in interest rates and net fee and

commission income are deducted from Internal Capital.

## RISK TAKING CAPACITY

Value-at Risk Approach - Banking laws require banks to hold a minimum amount of capital for all their material risks. Regulators require banks to hold capital for the same objective but a different reason as the bank's shareholders do. They try to avoid financial distress of a bank as they are concerned with the spill-over of a default to other banks (systemic risk) and the cost they must bear for deposit insurance or bank rescue operations.

For these risks (i.e. credit, market, and operational risk) explicit quantification and assessment procedures are given; adding up those numbers yields the regulatory capital requirement.

Likewise, a legal definition of eligible capital for backing these risks exists. So-called Common Equity Tier-1, Additional Tier 1 capital, and Tier-2 capital is accepted as risk buffer.

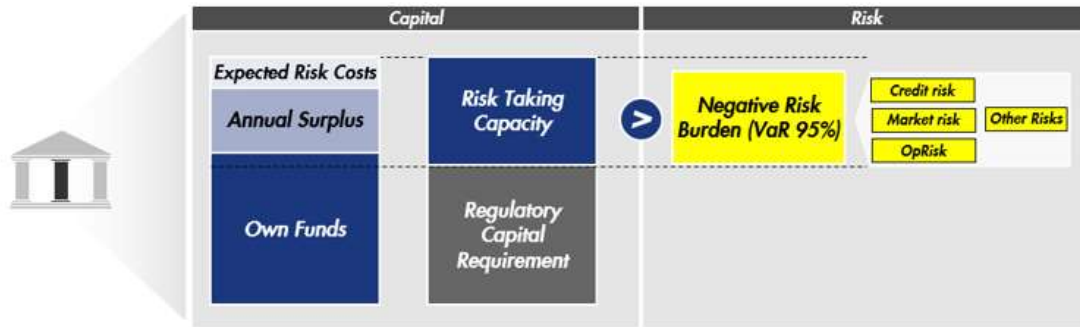
Besides the economic capital concept risk management must ensure that regulatory capital requirements are met.

Failure to meet these capital requirements will not necessarily result in default but will probably trigger regulatory intervention against the management of the bank and dividend payments. The Bank holds capital more than the regulatory minimum as an extra buffer to avoid regulatory intervention and subsequent reputational losses which is called risk taking capacity (RTC). Additionally, excess capital is held as a buffer for increasing business activities and future growth.

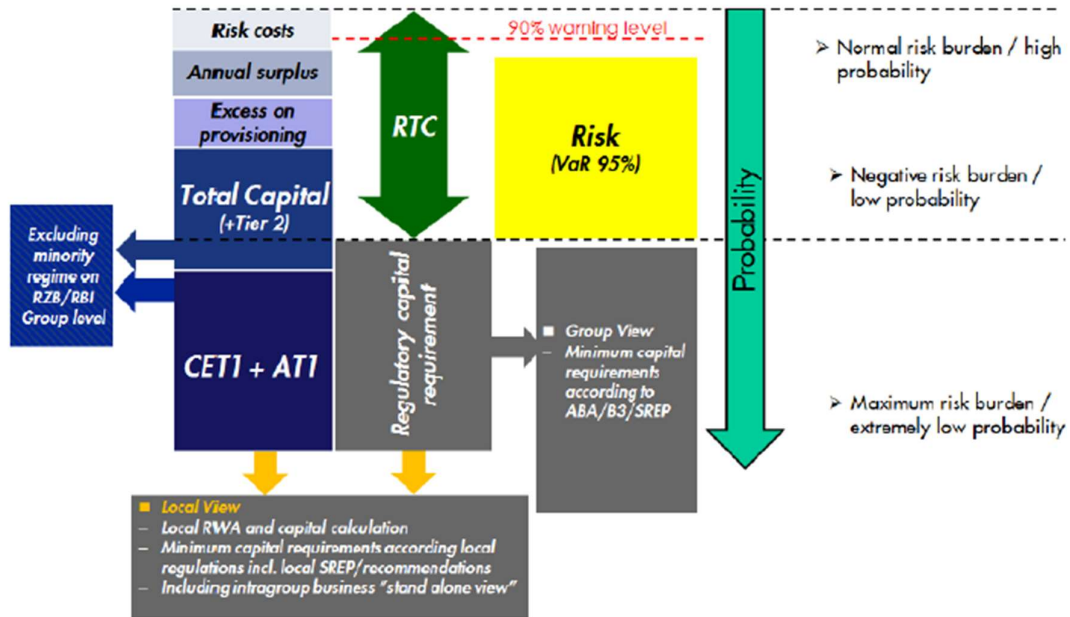
Because Risk Taking Capacity is mainly based on the surplus of capital over the minimum capital requirement (MCR), MCR is the needed regulatory capital requirement for Pillar I risks. For RTC purposes, the MCR is not calculated by using the CRR minimum capital requirement only, but also includes the subsequent buffer types:

- the additional Pillar II SREP add-on since 01.01.2020.
- the combined buffer regime (systemic risk buffer, capital conservation buffer, countercyclical buffer, buffer for global systemically important institutions, buffer for other systemically important institutions).

Since 2020 Risk Taking Capacity is used for monitoring purposes only and not for capital steering.



The maximum loss such that the bank still can meet the defined MCR is the excess capitalization of eligible own funds compared to MCR. In addition, several restrictions on the eligibility of different levels of capital quality exist. No need to pay a minimum dividend is assumed, but if business operations were increased, then new capital would be necessary.



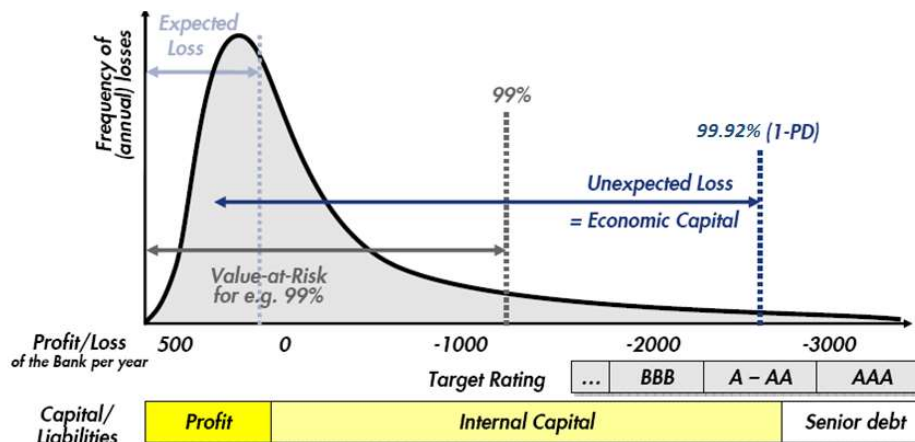
**ECONOMIC CAPITAL**

Economic capital (also called Internal Assessment of Capital Needs) denotes an overall estimate of the overall level of the risk at Raiffeisenbank Bulgaria, calculated using

statistical risk measurement approaches. The horizon that underlies the estimation of economic capital equals one year which is consistent with the one year period for estimating the default probability of the Bank's target rating and – moreover – it corresponds to the annual planning and budgeting process used to calculate and allocate economic capital. Nevertheless, for some risk types other horizons are used as well to reflect different market conditions (e.g. for trading book positions) or planning periods. The confidence level for quantifying economic capital is set at 99.90%, consistent with the default probability of the target rating of the Bank.

Value-at-Risk (VaR) is an assessment of the maximum expected and unexpected potential loss over a given time horizon for a given confidence level. Credit risk losses could be expected due to the possibility of occurrence of customer default. Unexpected credit risk losses arise due to write-offs or due to increase of loan loss provisions above the expected amounts. Market risk-taking activities are related to expectations of positive financial results. Still, unfavorable changes in risk factors (for instance, interest rates, FX rates, equity prices, volatility, etc.) could lead to losses from the portfolio. The frequency and the severity of the inadequate or failed internal processes, people, and systems or from external events are a measure of the unexpected losses arising from operational risk.

Economic capital is related to VaR in that it denotes the unexpected part of the VaR figure. Expected losses directly reduce (expected returns increase) available risk coverage capital and therefore only unexpected losses need to be backed by the (adjusted) amount of capital.



Economic capital is a comparable measure of different risk drivers and it ensures consistency in two different lines: consistency of the applied methodology and of the set of parameters related to it.

#### VaR for Market risk

VaR is a measure, based on statistical methods, of the potential loss for the Bank in unfavorable market movements. It is the maximum loss which can occur with certain level of confidence (99%). Therefore, there is a 1% chance that the loss will be greater than the expected amount. The VaR methodology assumes a holding period of n days for closing of the positions (1d). The model also assumes that the market conditions during the holding period will follow to a certain degree the conditions that were historically recorded.

The Bank uses a hybrid approach in VaR calculation. The historical simulation method is combined with the parametric VaR, taking into consideration events resulting from extreme movements of the risk factors. The volatility of the risk factors is time-weighted (the volatility for the last 20 trading days is weighted with 80% in the calculation and the volatility of the last two years is assigned with a 20% weight in the model).

For the purpose of Economic Capital (EC) calculation, the scope is extended to include credit spreads and the position scope is extended to cover Trading Book and Banking Book interest rate positions separately. In November 2020 a new method for calculating Economic Capital for Banking Book was implemented. The calculation now includes one simulation which combines Interest rate, Credit Spread and FX Risk. Credit Spread Risk for Loan Book is removed from VaR/Economic Capital calculation and this is aligned with European Central Bank.

To calculate Economic Capital for Banking Book, "StdVarHistIALL NoMarginEve" simulation is used. The simulation "StdVarHistIALL NoMarginEve" represents a 99% 20-day VaR.

Total Economic Capital is the sum of diversified Banking Book (BB) plus Trading Book (TB) which is of course lower than sum of individual risks due to diversification effects in Banking Book. Currently RBBG does not have StdVarVega1K and StdVaREq.



Regarding the detailed calculation of Economic Capital, RBBG follows strictly the best methodological practices of RBI which are presented in "REG-2015-0015 Market Risk Management Rulebook RBI Group General Part" and the respective supporting documentation.

VaR calculations for each portfolio differ according to the set of market factors considered in the model. VaR is calculated for each group of market factors: FX VaR (foreign currency risk), IR VaR (interest rate risk), SP VaR (spread risk), EQ VaR (equity risk):

Risk Factor	Covered in VaR	Not covered in VaR	Comment
Foreign Exchange (FX)	X		
Interest Rate (IR)	X		
Credit Spread (SP)	X		Bond/CDS-spreads
Equity (ZQ)	partly	X	Only indices and dominating underlyings of capital guarantee/ZUV exposures, Not approved risk category (only in RCB)
Equity Dividends (ZQD)		X	Not approved risk category (only in RCB)
Commodity (CO)		X	Not approved risk category (only in RCB)
Implied Volatility for FX options (FXV)	X		FX
Implied Volatility for IR options (IRV)	X		cap. swaptions
Implied volatility for EQ options (ZQV)		X	Not approved risk category (only in RCB)
Implied Quanto correlation (QC)		X	Covered by sensitivity limits
Inflation (IFR)	X		Inflation swaps
Implied volatility for Inflation (ICY, ICZ)	X		
CO2		X	Not approved risk category
Sovereign Basis risk (included in SP)	X		Government-swap covered in SP category
General basis risks (SPB)	X		FREQ Types and XC/FX
Gap risk	X		Only connected with capital guarantees in RBI

FX – Foreign Exchange Rates

IR – Interest Rate

SP – Credit spread

ZQ – Equity price

ZQD – Equity Dividend

CO – Commodity Prices

FXV/ IRV – Implied volatilities

ZQV – Implied volatilities

QU – Implied Correlations

IN – The risk that the implied inflation curve changes

CO2 – Carbon emission

Real results from the applied model are analyzed on a continuous basis in order to validate the assumptions and factors applied in the calculations.

In 2020 RBI introduced a new scope for Value at Risk simulations. The main purpose of the new scope is the focus of the “reactive” Std VarAll simulation to be placed on the positions that can be actively managed, and which are also affecting the daily P&L figures according to the IFRS 9 standards.

	PnL (IFRS9_PNL)	Total (ALL)	(reg.) TB	(reg.) BB
UNIT	✓ stdVarAll (1-day)	✓ StdVarHistAllNoMarginEve. (20-day)	✓ HO: stdVarCAD, stressVarCAD, NWU: SA, CAD	✓ StdVarHistir (20d) Stress Scenarios
UNIT-CM(=TB)**	✓ stdVarAll & stdVarVega1K, Sensitivities	✗		
UNIT-ALM	✓ stdVarAll, StdVarVega1K (optional) Sensitivities (optional)	✓ StdVarHistAllNoMarginEve, StdVarVega1K, Sensitivities	✗	✓ StdVarHistir

The application of this framework could not prevent the occurrence of losses above the specified limits. Nevertheless, the application of the hybrid VaR model considers to a certain

degree extreme market factor conditions and movements above the expected ranges.

- **StdVarHistAllNoMarginEve:** includes all risk factors, (FX, IR, Bond Spread, Basis Risk, Credit Spread). This simulation is relevant for Market risk EC calculations following the completed 2020 limit reviews.
- **StdVarHistIr:** is a stand-alone IR simulation, it is regulatory required on bank level banking book scope.
- **StdVarAll:** is a 1-day Monte-Carlo hybrid simulation, calibrated on 2-year history of returns, 80% weight on the last 20 days.

Detailed information regarding Value-at-Risk methodology can be found in REG-2015-0015 Market Risk Management Rulebook RBI Group General Part and the respective supporting documents.

in thsd. BGN (1 d/99 %)	AVG	MAX	MIN	31.12.2020
Trading Book VaR on an individual basis	78	181	28	48
Banking Book VaR on an individual basis	2 614	4 198	1 469	4 023
Total VaR Diversified	2 612	4 164	1 444	4 012

## RISK APPETITE

The **Risk Appetite** framework aims to provide the management with a tool to set and constrain the level of overall risk RBBG is willing and able to take on, in order to achieve its strategic and business goals. There is a close interconnectedness to the Internal Capital Adequacy Assessment Process (ICAAP), as the main objective of the Risk Appetite Framework is to align strategic and business target with the necessity to fulfill minimum regulatory capital requirements not only in the base case scenario, but importantly also in adverse scenarios, as well as in an extreme risk scenario (gone-concern).

Under the framework of Risk Appetite, the following terms are defined:

1. **Risk Capacity:** The level of overall risk the bank can absorb before breaching regulatory requirements and potentially become subject of resolution. Within the ICAAP concept the Risk Capacity is defined 100% utilization of Internal Capital by Economic Capital (Economic Capital Approach). The regulatory minimum capital ratios (CET1, T1, TC) form the Risk Capacity is the Normative Perspective. In the



context of the ILAAP the Risk Capacity is defined as the regulatory minimum for the LCR and NSFR.

2. **Risk Profile** – RBBG Risk Profile is defined as the respective sum of the risk amounts for all quantified risk types in the ICAAP at a given reporting date (i.e. the Economic Capital).
3. **Risk Tolerance** – the level of overall risk the bank is willing to tolerate before it has to consider countermeasures. Importantly, this threshold, which is defined as a percentage <100% of the overall Risk Capacity, has to be set in a way that a further downturn in the macroeconomic environment or large singular risk events would not push the Group's overall risk beyond its Risk Capacity.
4. **Risk Appetite** – The planned and budgeted overall level of risk aligned with the business objectives. Given the volatility in financial markets and the economic environment, and the unpredictability of large singular risk events, the Risk Appetite as a percentage of the overall Risk Capacity should be set below the level of Risk Tolerance with a large enough cushion in order to avoid a frequent breaching of this warning level.

The Economic Capital utilization is monitored on a quarterly basis and reported to the Risk Governance Committee and the utilization is considered separately for each risk type:

- Non-retail Credit Risk;
- Retail Credit Risk;
- Market Risk;
- FX capital position;
- Operational Risk;
- Other Risks (including participation risk, liquidity risk, owned property risk, CVA risk);
- Risk buffer for non-quantifiable risks – defined as % of the Economic Capital allocated for all other risk types.

## 8. COUNTERPARTY CREDIT RISK (CCR) – ARTICLE 439

Counterparty credit risk arises from exposures which originate from derivative deal transactions, repurchase agreements, securities or commodities lending/borrowing transactions, margin lending transactions, long settlement transactions. It is the risk that

the counterparty to a transaction could default before the final settlement of the transaction's cash flows and could not be able to provide the respective contractual transactions on time.

The Bank holds own funds for counterparty credit risk arising from derivative deals and repurchase agreements using the **Standardised Approach Method** for calculation of exposure value according to art. 274, of replacement cost art. 275 of Regulation (EU) 575/2013.

Raiffeisenbank (Bulgaria) EAD applies number of counterparty credit risk mitigation policies. The most common one is for receiving collaterals as credit risk protection. The Bank applies eligibility rules for collateral and credit protection acceptance.

Main types of collaterals accepted by the Bank are:

- Immovable property mortgage.
- Cash deposits.
- Pledge of commercial assets like machines or buildings, inventory, and receivables.
- Bank guarantees.
- Portfolio guarantees issued by fist-class Bulgarian or international institutions.
- Pledge agreements for securities.

Long-term financing and corporate client credits are usually collateralized, while private individuals' consumer loans are often not collateralized. In addition, for minimizing the expected credit loss in some circumstances when there are indications for worsening the quality of the credit, the Bank may request additional collateral to be provided by the customer.

In 2020 RBBG started to use actively used Potential future exposure methodology (PFE). PFE is an advanced method for identifying the maximum exposure under a certain confidence level, which can occur caused by market price fluctuations of its current derivative portfolio in the future. For counterparty credit limit utilization, we use a confidence level of 97.5%.

In addition, Wrong-Way risk (WWR) may arise due to the origination of derivative exposures. Wrong-Way risk is the risk that the probability of default of a derivative customer is

positively correlated with the exposure of its derivative portfolio. I.e. if the exposure is high it can be expected that the default probability is also high and vice versa. According to Article 291 CRR, specific stress-testing framework is established on a group level. In case of potential cases detection, group has established process for notification to all relevant decision makers, also including board member responsible for the Risk Management. Final decision whether there really is a WWR or not, and whether there are any actions to be taken, is based on the local governance bodies.

Further Quantitative information is reported in the Pillar3 Annex:

<a href="#">EU CCR1</a>	Analysis of CCR exposure by approach
<a href="#">EU CCR2</a>	Transactions subject to own funds requirements for CVA risk
<a href="#">EU CCR3</a>	Standardised approach – CCR exposures by regulatory exposure class and risk weights
<a href="#">EU CCR4</a>	IRB approach – CCR exposures by exposure class and PD scale
<a href="#">EU CCR5</a>	Composition of collateral for CCR exposures
<a href="#">EU CCR6</a>	Credit derivatives exposures - not Applicable
<a href="#">EU CCR8</a>	Exposures to CCPs

As of 31.12.2021, RBBG does not have exposures to CCPs.

As RBBG does not apply IMM, this information is not applicable.

As of 31.12.2021, RBBG does not have open positions in credit derivatives.

## 9. COUNTERCYCLICAL BUFFER – ARTICLE 440

In accordance with Title IV, Chapter 4 of Directive 2013/36/EU and Ordinance N°8 of the Bulgarian National Bank, countercyclical capital buffer should be applied with its macroprudential character and purpose – to protect the banking system against potential losses arising from accumulation of systemic risk throughout the economic cycle during periods of excessive credit growth. In accordance with Art. 5 of Ordinance N°8 of BNB, the Bulgarian National Bank discloses the information for the level of countercyclical capital buffer which should be applied. This information is being updated every three months. BNB Management board took the decision not to increase the capital buffer rate and to keep it to the level of 0.5% for the whole 2020 and 2021 because of the COVID-16 pandemic.

Period	CCyB Rate
2021 - Q1	0.5%
2021 - Q2	0.5%
2021 - Q3	0.5%
2021 - Q4	0.5%

As of Q4 2021, Raiffeisenbank Bulgaria applies countercyclical capital buffer rate of 0.5%.

The institution-specific level of countercyclical capital buffer is also 0.48% after breaking down the exposure amounts on geographical indication and weighting and applying the rates of the given countries.

Further Quantitative information is reported in the Pillar3 Annex

<a href="#">EU CCyB1</a>	Template EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer
<a href="#">EU CCyB2</a>	Template EU CCyB2 - Amount of institution-specific countercyclical capital buffer

## 10. CREDIT RISK – ARTICLE 442

The credit risk appraisal is based on four components: (i) probability of default (ii) current and expected credit exposure amount; (iii) expected amount to be recovered (loss given default) and (iv) time horizon of the probability of default.

These components of the credit risk, which represent expected losses, are according to the regulatory capital adequacy requirements and are part of the daily operations in the Bank.

For the measurement of the impairment losses, which decrease the amount of credit receivables is applied IFRS9. The Group assesses on a forward-looking basis the expected credit loss associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date.

**Definition of past-due for accounting purposes** – Exposures are past due when the contractually agreed date for payment has been exceeded or when the borrower has exceeded the approved credit limit.

**Definition of default and credit-impaired assets** – The Group defines a financial

instrument as in default according to Art. 178 of CRR 575/2013. A financial instrument is considered credit-impaired when it meets one or more of the following criteria:

- Quantitative criteria

The borrower is more than 90 days past due on a material credit obligation. No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

- Qualitative criteria

The borrower meets unlikelihood to pay criteria, which indicates the borrower is in significant financial difficulty and unlikely to repay any credit obligation in full. The indications of unlikelihood to pay include:

- A credit obligation is put to a non-accrual status due to its deteriorated credit quality
- A credit obligation is sold at a material economic loss
- A credit obligation is subject to a distressed restructuring
- An obligor is bankrupt/insolvent
- An obligor committed credit fraud
- An obligor is deceased
- A credit contract was prematurely terminated due to obligor's non-compliance with contractual obligations.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to be out of default (i.e. to have cured) when it no longer meets any of the default criteria according to Art. 178 of CRR 575/2013 for a consecutive period of a minimum of 3 months or longer for distressed restructured exposures. RBBG follows the guidelines and technical standards for entering/curing from default of EBA (EBA/GL/2017/16 and EBA/RTS/2016/03).

**Definition of restructured (forborne) exposure** – The definition used for distressed restructuring and forborne exposures are fully compliant with the definition in CRR 575/2013 art. 178, para 3, (d) and forborne exposure defined in Annex V of the Commission Implementing Regulation (EU) No 680/2014.

RBBG is being developing NPE strategy since 2017 according to EBA guidelines. In a such manner it's ensured that the Bank effectively manages NPEs and forborne exposures (FBEs) in the balance sheet.

The non-performing exposures include the defaulted and impaired exposures. Forborne exposures can be identified both in the performing and in the non-performing portfolios.

Non-performing exposures are those that satisfy either or both of the following criteria:

- material exposures which are more than 90 days past due.
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

Further Quantitative information is reported in the Pillar3 Annex

<a href="#">EU CR1</a>	Performing and non-performing exposures and related provisions
<a href="#">EU CR1-A</a>	Maturity of exposures
<a href="#">EU CR2</a>	Changes in the stock of non-performing loans and advances
<a href="#">EU CR2a</a>	Changes in the stock of non-performing loans and advances and related net accumulated recoveries
<a href="#">EU CQ1</a>	Credit quality of forborne exposures
<a href="#">EU CQ2</a>	Quality of forbearance
<a href="#">EU CQ3</a>	Credit quality of performing and non-performing exposures by past due days
<a href="#">EU CQ4</a>	Quality of non-performing exposures by geography
<a href="#">EU CQ5</a>	Credit quality of loans and advances by industry
<a href="#">EU CQ6</a>	Collateral valuation - loans and advances
<a href="#">EU CQ7</a>	Collateral obtained by taking possession and execution processes
<a href="#">EU CQ8</a>	Collateral obtained by taking possession and execution processes – vintage breakdown

**11. UNENCUMBERED AND ENCUMBERED ASSETS – ARTICLE 443**

The amount of pledged securities is monitored on a daily base, changes are made when necessary (could be daily). The amount of pledged securities is excluded from the value of the liquidity buffer for the purpose of the liquidity model and the calculation of the stress-test result, together with the value of the available highly liquid securities for the purpose of liquidity coverage ratio. The report based on Ordinance №11 also takes this under consideration and books the securities in column Pledged assets/Past due assets over 30 days.

The process of pledging the securities is an integral part of the general framework for the bank's liquidity risk management. In this context, the currency structure of the pledged securities is in line with the current and expected results from the stress-test scenario for every significant currency.

The general principles, duties and responsibilities, which should be complied with in managing the risk arising from the encumbering of assets, are described in the internal regulation "PR 10.28 Procedure for managing the risk arising from the encumbering of the assets". In accordance with the regulation, all types of encumbered assets are as follows:

- Funding schemes with International Financial Institutions and banks outside RBI's network units.
- Provisioning of attracted funds – includes provisioning of budget funds attracted by the bank and provisioning by the bank of external funding lines with sovereign government bonds, Eurobonds/ Global government securities.
- Secured funding deals – repo deals, borrowing and lending securities, sale/buy back security deals.
- Agreements for deals with covered derivatives (Margin account).
- Securitization of loan portfolios.

In addition, and with the purpose of avoiding discrepancies, the bank has developed a special instruction describing in great details the roles and responsibilities of the employees, committed to the implementation of the requirements made by the Bulgarian National Bank and the Ministry of Finance towards the commercial banks, in line with the Law of the State Budget, regarding servicing the budget resources, as well as other requirements by

International Financial Institutions, in accordance with the signed contracts for financing—these are the two main sources for encumbering.

Further **Quantitative** information is reported in the Pillar3 Annex

<a href="#">EU AE1</a>	Encumbered and unencumbered assets
<a href="#">EU AE2</a>	Collateral received and own debt securities issued
<a href="#">EU AE3</a>	Sources of encumbrance

## 12. USE OF EXTERNAL CREDIT ASSESSMENT INSTITUTION (ECAI) – ARTICLE 444

RBBG utilizes the external sovereign ratings from Standard & Poor's, Moody's and Fitch Ratings for the calculation under the permanent partial use of standardized approach. If available, the issue ratings of securities from Standard & Poor's and Moody's are applied. For all other exposure classes, if available, the ratings of Standard & Poor's are applied.

As of 2021 ECAI is used only for Central Government Exposures.

## 13. MARKET RISK – ARTICLE 445

### SECTION A: OWN FUNDS REQUIREMENTS FOR MARKET RISK UNDER STANDARDIZED APPROACH

EU MR1 – Market risk under the Standardized approach (Pillar3 Annex)

### SECTION B: QUALITATIVE INFORMATION ON THE INTERNAL MODEL APPROACH

As of 31.12.2021, the bank does not apply market risk internal model for the calculation of own fund capital requirements. Such models are used only for internal purposes and they support the limit system in the Bank's internal market risk limits structure.

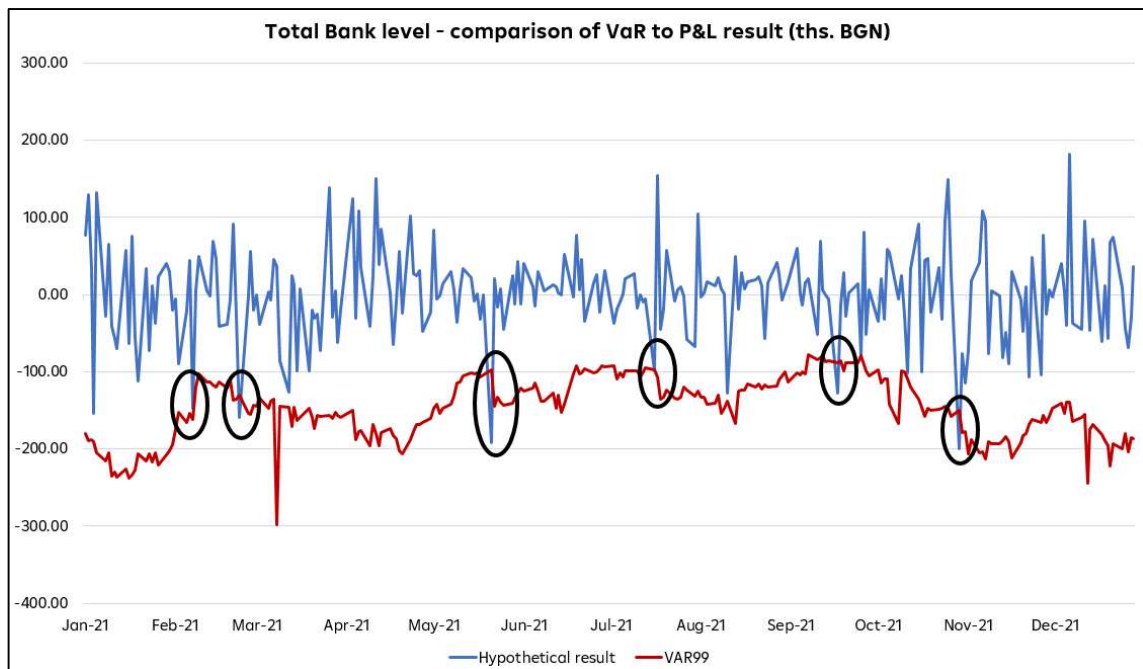
### SECTION C: OWN FUNDS REQUIREMENTS FOR MARKET RISK UNDER THE INTERNAL MODEL APPROACH

Notwithstanding **the Bank does not apply market risk internal models** for the evaluation of the risk, RBBG strictly monitors the deviations in Value at Risk figures on daily basis, deviations of the hypothetical and actual results.



On Total bank level, only hypothetical result vs. Value at Risk changes are monitored, as for the Banking and Trading book, the bank monitors the actual results vs. Value at Risk as well.

A) On Total Bank level, for the 2021, 6 violations of the hypothetical results are registered, which are in the yellow zone. The violations are due to the market volatility caused by the COVID-19 pandemic situation. However, as the bank does not apply the internal model approach, there is not a requirement for additional add-on factor to economic capital calculations.

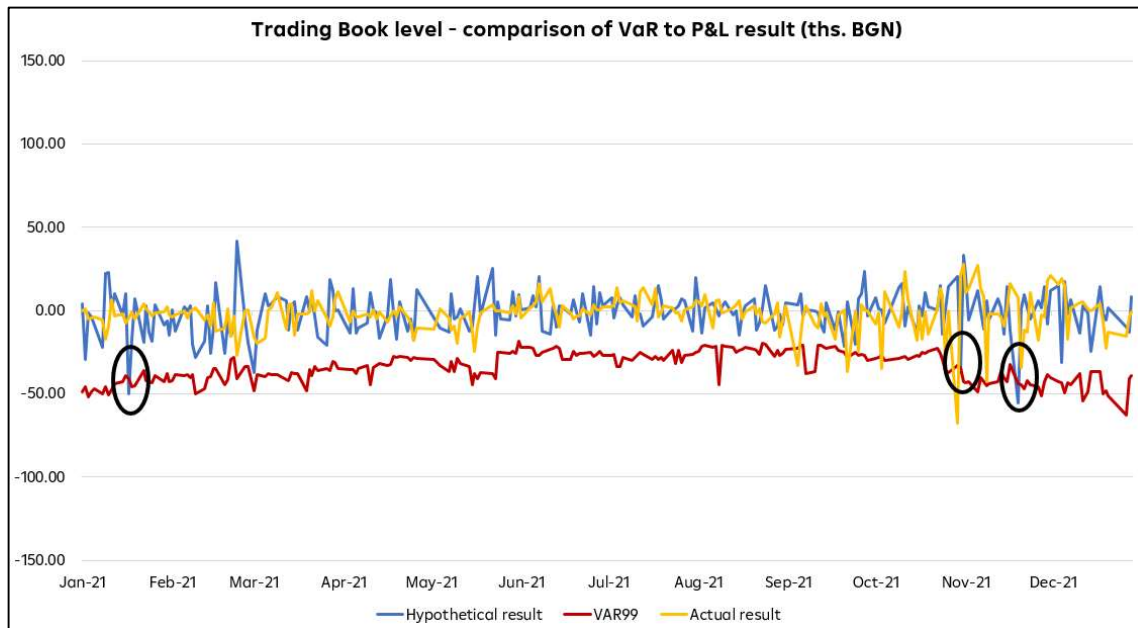


Zone	Number of overshootings	Addend
Green	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red	10 or more	1.00

B) Trading book:

On trading book level, there are 3 violations of the hypothetical P&L for 2021, which are in

the green zone for the applied add-on for the economic capital calculations. Most of the violations are due to the volatility that hit the markets in the middle of March and the escalation of the COVID-19 pandemic situation. There were several violations of the actual result vs. VaR which were also due to the pandemic situation. As the bank does not apply the internal model approach, there is not a requirement for additional add-on factor to economic capital calculations.

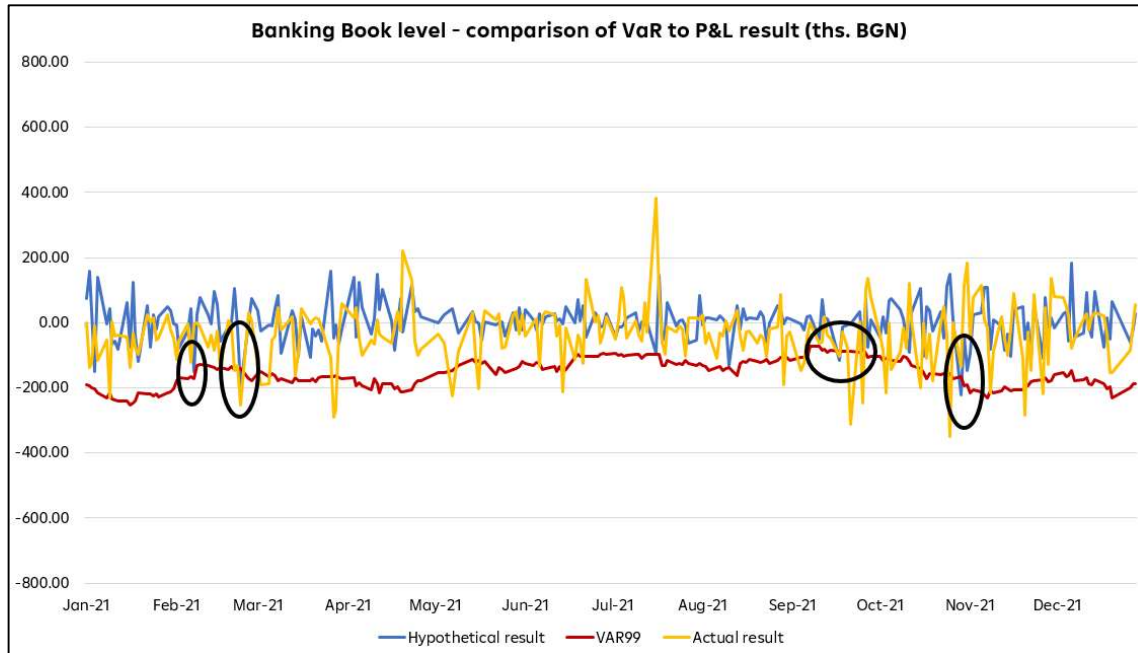


Zone	Number of overshootings	Addend
Green	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red	10 or more	1.00

### C) Banking Book:

On a Banking book level, there are 4 registered violations of the hypothetical P&L vs. VaR on back-testing level from 2021. There were several violations of the actual result vs. VaR during the year. The main reason for the violations is the volatility that hit the markets due to

COVID-19 pandemic situation.



Zone	Number of overshootings	Addend
Green	0	0.00
	1	0.00
	2	0.00
	3	0.00
	4	0.00
Yellow	5	0.40
	6	0.50
	7	0.65
	8	0.75
	9	0.85
Red	10 or more	1.00

#### 14. OPERATIONAL RISK – ARTICLE 446

Operational Risk Management is identifying, measuring, managing, and monitoring exposures, resulting from inadequate or failed internal processes, human interaction, and systems, or from external events.

The Operational Risk Management Framework consists of the processes, structures, controls, and systems used to manage Operational risk throughout the Group, ensuring that

key governance elements and operating activities are in place.

RBI Group fosters a risk aware and open environment/culture, which supports identification, measurement, management, and monitoring of operational risks.

All employees of RBBG and its subsidiaries, through their individual roles and responsibilities, contribute to maintaining an effective Operational Risk Management Framework. Hence, all employees must clearly understand their individual role in the risk management process.

The Bank applies the Three lines of defense operating model which establishes the appropriate accountability for the Operational Risk Management.

The first line of defense is the risk originating units whose business activities give rise to risk. The risk originating units own Operational Risk. The Operational Risk Managers (ORM) and Dedicated Operational Risk Specialists (DORS) are responsible for the day-to-day management of Operational Risk in a manner consistent with the Group-wide principles applied in RBBG and its subsidiaries.

The second line of defense provides an independent assessment of Operational Risk, oversight and challenges the first line of defense. The second line of defense is comprised of: Group Chief Risk Officer (CRO) and Executive Director Risk Management and Finance; Operational Risk Management & Controls Committees; Group Operational Risk Controlling; Operational Risk Controlling of RBBG and its subsidiaries (ORC in RBBG).

Other units that are part of second line of defense are: Security Department (of second line of defense regarding Business Continuity Management, Information Security и Physical Security) and Compliance Department (of second line of defense regarding Compliance, Financial Crime Management и Internal Control System). The mentioned units as well as ORC in RBBG secure that risks related to their area are proactively defined, measured, managed, and monitored. Group Units that are part of second line of defense (SloD) also review and check the processes and systems of the Group.

The third line of defense is the Internal Audit Department, it reviews effectiveness and suitability of the general risk management processes. The audit function shall not be part of the day-by-day Operational Risk Management process to act as an independent review function.

Operational Risk is managed within the Risk Management cycle, which encompasses the identification, measurement, management and monitoring of risk.

Identification of Operational Risks includes analysing the below attributes to understand material Operational risk types to which the business may be exposed. Operational Risks in the Group are identified on a proactive and regular basis within:

- products;
- processes;
- systems;
- external factors.

Operational Risk measurement can be both quantitative and qualitative in nature. Measurements should be of sufficient quality and integrity to support effective tactical and strategic decision making for operational risk. Measurement instruments include:

- risk assessments;
- early warning Indicators;
- scenario analysis;
- Operational Risk Event Data Collection.

Operational Risks are inherent in all of the Group's business activities and given economic limitations, they cannot be fully eliminated. However, Operational Risk can be effectively managed in order to reduce exposure to financial loss, reputational impact or regulatory sanction. An effective system of internal controls is a prerequisite of sound Operational Risk Management. It includes:

- risk avoidance - refusing to engage in or withdrawing from an activity where the risk cannot be appropriately managed;
- risk treatment - putting in place effective controls that limit the frequency and severity of loss to manageable level;
- risk acceptance - accepting a risk without further treatment or transfer for a period of time;
- risk transfer - transferring the risks to other parties (e.g. insurance companies or outsourcing).

Monitoring is focused on regularly reviewing of:

- the Operational Risk Management cycle - focusing on the effectiveness of the cycle as a whole and its individual components (identification, measurement, management) to ensure sound Operational Risk Management;

- the Operational Risk Management instruments & methods, to ensure their relevance and validity in assessing Operational Risk;
- ensuring that treatment measures, which are implemented are functioning effectively, reviewed regularly and necessary adjustments occur.

Reporting supports the Operational Risk Management cycle by ensuring constant and timely information flow to the relevant decision-making bodies. In this way, Operational Risk reporting supports risk transparency and the integration of Operational Risk Management activities into day-to-day business operations.

During 2021, the Operational Risk Controlling function focused on further improvements in the local processes related to operational risk management instruments, as well as regulatory risks identification and management.

The Bank applies the Standardized Approach (TSA) for the calculation of the regulatory capital for operational risk.

Further **Quantitative** information is reported in the Pillar3 Annex

<a href="#">EU OR1</a>	Operational risk own funds requirements and risk-weighted exposure amounts
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The information at financial year end 2021 used for the calculation of own funds requirements is based on audited figures.

## 15. EXPOSURES TOWARDS EQUITY INSTRUMENTS OTHER THAN HELD FOR TRADING - ARTICLE 447

The Bank recognizes the fair value of financial instruments using the following hierarchy of methods based on the significance of the factors used for fair value definition:

- Level 1: the inputs for level 1 are the quoted (unquoted) prices of instruments on active markets for identical financial instruments.
- Level 2: the inputs for level 2 are the observable or unobservable inputs for a certain asset or liability different from the quoted prices (included in level 1). This category includes instruments evaluated using quoted prices of identical or similar assets or

liabilities on markets, not considered to be active; other valuation techniques where all significant inputs can be observed directly or indirectly using market data.

- Level 3: the inputs for level 3 are unobservable inputs for a certain asset or liability. This category includes all instruments for which the valuation technique does not include observable inputs and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments whose valuation is based on quoted prices of similar instruments where significant unobservable corrections or assumptions are required to account for the differences between the instruments.

The fair value of the financial instruments is calculated based on existing quotations of market prices using a state-of-the-art valuation tool widely adopted worldwide. The fair value of financial instruments for which no market prices quotations exist is calculated by diverse valuation techniques, as for example: calculation of the net present value, future cash flows discount, or comparison to similar instruments for which there are market prices quotations.

For more complex financial instruments the Bank applies internally developed models based on proven by practice valuation models. Some of the calculated valuations may be unobservable under the existing market conditions and are based on market prices or percentages or are based on assumptions. At the moment of the deal the financial instrument is at first recognized at purchase price that is the best fair value indicator, although it may differ from the value calculated by implementation of valuation models. This initial difference from the application of valuation models is recognized in the comprehensive income statement depending on the circumstances and conditions of the deal, but not later than the moment when there are observable financial markets inputs.

The fair values determined by application of valuation models are adjusted for several factors and circumstances considered at the time of the deal and that may not always be accounted for in the valuation model. These adjustments take into account the credit risk, dealer margins, liquidity risk, etc. the Management considers these adjustments to be necessary and relevant for the appropriate representation of the fair values in the Banks's financial statements so that they are as close as possible to the market prices, that would have been determined on a market basis in a transaction between unrelated parties.

The fair value calculation is supervised by the Market and Liquidity Risk Management Section under Market, Liquidity and Operational Risk Controlling department and is independent from Bank departments that are directly involved in the trading and investment activities. The specific supervisory functions include confirmation of the applied market prices, review of valuation models, review, and confirmation of new valuation models.

All equity instruments in the banking book are strategic investments sanctioned by decisions of the respective committees and the Management/Supervisory Board.

#### 16. INTEREST RATE RISK ARISING FROM NON-TRADING BOOK ACTIVITIES – ARTICLE 448

Due to the specifics of the positions arising from non-trading book an activity, defining the scope of interest rate risk is a matter of utmost importance, i.e. all interest rate risks related to the Bank's assets, liabilities and off-balance sheet items must be taken into account. To achieve this objective, an internal system for monitoring of exposures has been established. The system covers all on-balance-sheet and off-balance sheet items which are exposed to the risk of changing interest rates. The results generated by the interest rate risk management system in the Banking book are used to assess the effective allocation of economic capital, which in turn ensures the active monitoring and management of market risk, to which the Bank's Banking book is exposed.

The Bank applies a combination of the most common techniques to measure the risk of the change in the economic value of its assets/liabilities because of changing interest rates. The techniques for monitoring and managing interest rate risk are mainly based on maturity tables and tables that account for the next interest rate resets in the corresponding currency, according to the market conditions for the floating rate instruments. As part of the limit system, the possible deviations are translated into limits. The maturity tables used to account for the Bank's interest risk exposure are the distribution of interest sensitive assets, liabilities and off-balance sheet positions at predetermined time intervals according to their maturity (in case of fixed rate instruments) or the remaining time until the next interest reset date (in case of floating rate instruments). Assets and liabilities for which the maturity cannot be determined (e.g. sight deposits or savings accounts) are modelled by using replication matrices, the validity of which is back-tested every 6 months and, if



necessary, they are optimized/recalibrated. Interest rate gap analysis combined with applying durational weights for each time interval is used in the next phase in management and monitoring of interest risk in the Banking book. Such analysis successfully complements the rest of the techniques used by the Bank and it is an essential part of the tool kit for determining, limiting, and monitoring the interest rate risk of the Banking book.

The Bank's system for interest rate risk management aims to improve the process and optimize the calculation processes. The system is specialized software that is used on a group level and allows for the following:

- Simulation of the Bank's net interest income (NII) in different standard and non-standard scenarios of changing interest curves.
- Identifying the factors that are relevant to the Bank's NII.
- Measuring the impact of different business strategies on the Bank's balance, thus providing a sound basis for decision making.
- Support the process of regulatory compliance and recommendations.
- On the following figure the change of the interest-sensitive income of the Bank at the end of 2021 is presented in a scenario +/-200 b.p. (parallel shift of the interest rate curve). The scenario presented below represents a positive or negative change in interest-sensitive income against baseline scenarios at stable interest rates.

ISI Scenario	Parallel + 200 bp		Parallel - 200 bp	
	2022	2023	2021	2022
<b>Change in Net Interest Income</b>	73.6	83.8	-29.0	-39.1
<b>Change in Valuation</b>	-15.1	1.1	19.1	-1.1
<b>Total</b>	<b>58.5</b>	<b>85.0</b>	<b>-9.9</b>	<b>-40.3</b>

- in BGN mn| Figures representing difference between Stable and respective Sress scenario

\*Income variability due to application of interest rates shocks

The Interest rate risk in the Banking book is also valued using the value-for-risk (VaR) calculation. VaR values and existing limits are the basis of the concept of applying internal models for risk management purposes on an operational level and are calculated on a daily basis. This type of limit serves to regulate the Bank's exposure to interest rate changes. StdVarHistlr is a stand-alone IR simulation, it is regulatory required on bank level banking

book scope. StdVarHistlr is a historical VaR simulation with the following setup:

- Overlapping 20 (working) day returns over a 7-year period (7 years approx. 1750 returns)
- Mirroring of the scenarios (for each scenario a scenario with the returns multiplied by -1 is added) yielding 3500 scenarios
- 1%-quantile of the simulated P/L vector is taken

VaR 1d/99%	2021			
	Avg	Max	Min	31.12.2021
In thsd. BGN				
<b>VaR IRRBB</b>	6 943.65	7 951.67	5 834.75	7 365.65

- The

weighting scheme considered is such that the most recent 4 years from the total 7 years, i.e. most recent 1000 scenarios, are equally weighted. After 4 years the weight is reduced linearly to reach a value of 0 after 7 years.

\*IR VaR in the Banking book for 2021

## 17. EXPOSURES IN SECURITISATION POSITIONS – ARTICLE 449

Bank Securitisation position is represented by Synthetic Securitisations and they are originated due to the Bank participation under capped guarantee facilities of the EIF and local guarantee institutions (National Guarantee Fund – NGF and Fund of Funds – FMFIB).

As of 31.12.2021 does not transfer the risk to the investor for calculating the regulatory capital requirements.

In 2009 Raiffeisenbank (Bulgaria) concluded risk-sharing agreement with the EIF under the European Union's (EU) Competitiveness and Innovation Framework Programme (CIP) for Bulgaria).

In 2011 Raiffeisenbank (Bulgaria) concluded First Loss Portfolio Guarantee Agreement (FLPG) with the EIF under the JEREMIE Initiative.

In November 2016, Raiffeisenbank (Bulgaria) concluded a securitization transaction under COSME LGF.

In 2020, the Bank concluded securitization transactions with the EIF under European Guarantee Fund (EGF), COSME Covid 19 Sub-window, CCS, JEREMIE Bulgaria Documentary

Finance and one securitization transaction with the Bulgarian Fund of Funds under FMFIB Recovery-1 Programme.

The above-mentioned facilities are first loss portfolio guarantees through which the respective Guarantor offers credit risk protection for a portfolio of loans provided by the Bank. By joining these Programmes there is a benefit for the final customers in form of a lower price of the loan and reduced collateral requirements. Brief description of the active programs follows below:

**The Competitiveness and Innovation Framework Programme (CIP)** was an EU programme managed by EIF in the 2007-2013 programming period launched in cooperation with the European Commission. The Programme aimed at enhancing access to finance for SMEs.

**JEREMIE Initiative (Joint European Resources for Micro to Medium Enterprises)** is a joint initiative launched by the European Commission (Directorate General Regional Policy) and the European Investment Bank group to improve access to finance for SMEs in the EU within the Structural Funds framework for the period 2007 - 2013.

**COSME** LGF is implemented by the EIF with the objective of facilitating access to debt finance for many SMEs who might be having difficulties in accessing the traditional banking system. In April 2020, the EIF and EC launched specific COVID-19 support under the COSME Loan Guarantee Facility (COSME LGF), which is supported by the European Fund for Strategic Investments (EFSI) dedicated to support working capital needs of SMEs to overcome the liquidity tensions triggered by current economic environment.

The Cultural and Creative Sectors Guarantee Facility (**CCS GF**) is implemented by the EIF with the objectives of access to finance to SMEs and Small Public Enterprises in the Cultural and Creative Sectors. In 2020, the EIF and EC launched specific COVID-19 support under the CCS in order to encouraging financial intermediaries to continue lending to SMEs and Small Public Enterprises from the cultural and creative sectors that have been severely hit by the economic consequences of the coronavirus pandemic.

**JEREMIE Bulgaria Documentary Finance Facility** was designed to address the policy objective of the Bulgarian Ministry of Economy of supporting the financing of urgent liquidity

needs of micro, small and medium sized enterprises in Bulgaria to overcome the financial shocks linked to the COVID-19 crisis. The Facility is implemented by the EIF using proceeds from the JEREMIE initiative, which was co-financed by the European Regional Development Fund (ERDF) in the 2007-2013 period.

In the context of the COVID-19 pandemic, the EIB Group (the EIB and the EIF) established the **Pan-European Guarantee Fund (EGF)** with a targeted size of EUR 25 bn to enhance its operations significantly in support of EU-based companies affected by the crisis. Under EGF, the EIF deployed a number of equity and debt funds and a number of guarantee products.

In response to the challenges posed by the COVID-19 pandemic, the Bulgarian government has developed and launched a Recovery Programme. **The Recovery-1 Programme** was launched in 2020 by the Fund Manager of Financial Instruments in Bulgaria (FMFIB; the Fund of Funds) with the objective to facilitate access of businesses to loans in order to resume activities after the gradual termination of measures introduced in response to COVID-19 pandemic.

## 18. REMUNERATION – ARTICLE 450

The Management Board of Raiffeisenbank (Bulgaria) EAD approves the Remuneration Policy then confirmed by the Supervisory Board. The Policy applies to employees of the Bank and its subsidiaries who are under supervision on a consolidated basis.

The Human Resources Department, the Compliance Department, and the Legal Division are involved in the preparation and the annual review of the Policy. The Remuneration Policy is in line with the applicable Internal Regulations of the RBI Group, part of which is Raiffeisenbank (Bulgaria) EAD. The Policy defines the main principles for determining the remuneration elements (fixed and variable) for all employees falling within the scope of the Policy. It focuses on the reliable and effective risk management and does not encourage risk taking that would lead to a change in the Bank's risk profile and would exceed the Bank's tolerable risk levels. The policy aims at synchronizing the employees' interests with the Bank's long-term interests and its business strategy and provides for measures for avoiding conflicts of interest.

The policy considers remuneration as a set of elements of fixed and variable nature, the

latter being directly linked to the results (quantitative and qualitative indicators) of the activity of the bank as a whole, the structural unit and the employee in different configurations. The elements of the variable remuneration are managed through a bonus pool, which includes the variable remuneration of all employees entitled to such remuneration, including senior management.

The amount and funding of the bonus pool, as well as the allocation of the deferred/retained parts of the individual variable remuneration of the identified staff under Art. 2, items 1, 2 and 4 of Ordinance No. 4 of 2010 of the BNB on the requirements for remuneration in banks is determined according to the annual results on predefined indicators – return on equity, cost/income ratio, return of risk-adjusted capital, risk weighted assets, fulfilment of CET1 ratio at RBI Group level, fulfilment of CET1 ratio at local level. The results of the activity of Raiffeisenbank (Bulgaria) EAD are measured and evaluated on predefined indicators, covering periods longer than 1 year, taking into account the business cycle and the risks undertaken, as well as the cost of the capital and the necessary liquidity.

The incentive schemes for variable remuneration, documented in Art. 5.6.9. of the Raiffeisenbank (Bulgaria) EAD Remuneration Policy, consider individual and team performance, have a qualitative step-in criterion for payment of variable remuneration and a minimum of 30% of the performance depends on the realization of quality indicators. These models necessarily provide for both a possibility for zero variable remuneration and a maximum amount of the individual variable remuneration.

The procedure for allocation and payment of variable remuneration to the persons under Art. 2, items 1, 2 and 4 of Ordinance No. 4 of 2010 of the BNB on the requirements for remuneration in banks is documented in Art. 6 of the Remuneration Policy of Raiffeisenbank (Bulgaria) EAD – Specific Principles for Remuneration in the RBI Group – applicable in RBBG. The variable portion of the total remuneration of the persons under Art. 2 of Ordinance No. 4 of the BNB is distributed in a ratio of 50/50 for the monetary and non-monetary part. The payment of 40% of the variable remuneration (both for the monetary and the non-monetary part) is deferred for a period of 4 years, and the portion paid in instruments is retained for one year. For the persons under Article 10 of the CIA, the payment of 60% of the variable remuneration (both for the monetary and the non-monetary part) is deferred for a period

of 5 years and the portion paid in instruments is retained for two years.

Variable remuneration elements that are subject to retention can only be granted (only after the expiry of the relevant retention periods – with a duration of 1 or 2 years) in amounts that allow the proper application of the risk reporting requirements (after a check on events occurred, resulting in a reduction in deferred remunerations or the reimbursement of paid or acquired remunerations, the so-called Malus/Clawback events).

A limit on the variable remuneration is set at 100% of the fixed remuneration, which can be increased to 200% of the fixed remuneration only with the approval of the RBI Board, the RBBG Supervisory Board and the shareholders or owners or members of RBBG.

## 19. LEVERAGE RATIO – ARTICLE 451

In compliance with art. 429 of Regulation (EU) 575/2013 (and the later amendments of that Regulation) the Leverage ratio is part of the Liquidity risk management framework. The Bank calculates its Leverage ratio dividing the capital measure by the total exposure measure and expressed as a percentage.

As at 31 December 2021 the leverage ratio of RBBG amounted to 8.03 per cent as compared to 8.2 per cent at year-end 2020. The increase was mainly driven by a growth in leverage exposure by 7 per cent (with EUR 388 mn), which is based on an increase of balance exposures and derivative deals. **Quantitative** information is reported in the Pillar3 Annex about the Leverage ratio of the Bank in accordance with art. 451 of Regulation (EU) 575/2013 and Implementing Regulation (EU) 2016/200:

<a href="#">EU LR1</a>	Summary reconciliation of accounting assets and leverage ratio exposures
<a href="#">EU LR2</a>	Leverage ratio common disclosure
<a href="#">EU LR3</a>	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

## 20. LIQUIDITY REQUIREMENTS – ARTICLE 451A

### 1. QUALITATIVE INFORMATION EU LIQA - LCR

**a) Strategies and processes in the management of the liquidity risk, including policies on diversification in the sources and tenor of planned funding**

The Bank distinguishes between short-term liquidity risk and funding liquidity risk. **Short-term liquidity risk** can be defined as the current and prospective risk to earnings or capital, arising from a bank's inability to meet its financial obligations when they come due and without incurring unacceptable losses (extremely high funding costs for example). Management process is based on active monitoring and maintenance of liquidity position into the preliminary established framework.

**Funding liquidity risk** is the risk of loss as necessary funding transactions might be achievable only on less favorable terms. It depends on the following:

- Liquidity gaps of the Bank for each maturity interval
- Future costs required for supplying liquidity gaps funding.

The liquidity position of the Bank is monitored on a daily basis and the current situation is reported regularly to the Assets and Liabilities Management Committee (ALCO) at least once a month.

The Bank's liquidity management strategy is subject to the pursuit of timely acquisition of liquid resources in optimal volume, quality, and structure to meet the required liabilities in normal and extraordinary circumstances, without unacceptable losses and endangering the Bank's reputation.

The Bank does not maintain liquid assets to the extent necessary to meet all possible liquidity outflows, as historical experience shows that there is a level of renewal of maturing deposits, which can be predicted with sufficient accuracy.

For this purpose, the inflow and outflow of cash flows are analyzed both in the scenario "going concern" and in the "stress scenario", considering not only contractual relationships, but also behavioral factors depending on the type of client. Liquidity imbalances are monitored at time intervals and at the level of currency composition.

If unacceptable liquidity imbalances are detected, escalation procedures are triggered, and actions are taken depending on the significance and horizon of manifestation.

In addition, at each ALCO meeting a forecast development of the liquidity situation is presented in a one-year horizon compared to the implementation of budget forecasts to monitor the situation by individual stress scenarios and by currencies.

The main elements of the Bank's liquidity strategy are as follows:

- Maintaining a diversified funding base
  - Maintaining a portfolio of highly liquid assets with an appropriate currency and maturity structure
- Application of adequate tools for measuring and monitoring the liquidity situation depending on the imposed internal framework and regulatory requirements; Dynamic process for conducting stress tests of the liquidity position, introduced at a group level. Stress tests are subject to continuous improvement in line with regulatory requirements of both local regulators and the EU level. They are accompanied by a system of early warning indicators.
- Adequate reporting framework allowing a continuous process of control over the liquidity profile of the Bank, as well as application of relevant corrective measures, if necessary
  - Avoiding concentrations to a group of related parties and treating these funds as conservatively as possible.

**b) Structure and organisation of the liquidity risk management function (authority, statute, other arrangements).**

In accordance with the Liquidity Risk Management Framework established, the Assets and Liabilities Management Committee (ALCO) is responsible for liquidity management in the Bank. ALCO observes the Bank's liquidity position in relation to the risk limits and approves the financing plans (annual plan for providing the necessary funding resources, as well as the strategy for the next three years). In addition, the Committee aims at ensuring compliance with both liquidity risk standards and policies and legal and regulatory requirements in this area. The following units are also engaged with liquidity risk management in the Bank – "Market, Liquidity and Operational Risk Controlling", "Treasury/ALM", "Capital Markets Interbank" and "Payments" department.

**c) A description of the degree of centralisation of liquidity management and interaction between the group's units**

The process of liquidity and liquidity risk management consists of measuring and modeling risks, setting and monitoring limits, maintaining exposures within these limits, as well as taking measures to restore liquidity balances in case of limit violations, in line with strategic and business goals at the group and local level.

At the Group level, an integrated approach to liquidity risk management has been adopted.



The roles and responsibilities are divided between the Liquidity Risk Management and the Treasury (Assets and Liabilities Management) units of Raiffeisenbank (Bulgaria) EAD and RBI AG by establishing a two-tier mechanism guaranteeing consistency in all subsidiaries and at the same time giving RBBG the right to consider local specifics.

The units responsible for managing assets and liabilities complement this integrated approach, monitoring and managing operational and long-term liquidity at group and local level and maintaining the liquidity position within the established limits.

**d) Scope and nature of liquidity risk reporting and measurement systems.**

The core of the daily liquidity reporting is based upon the Kamakura Risk Manager application which uses an Oracle Database for data processing. The daily liquidity reports (business as usual and stress scenario) are generated automatically out of the OLAP (Online Analytical Processing) cube and are stored on a file share in excel format. The cube and the excel reports are available to Risk and Treasury colleagues in HO and on local level.

The monitoring and control of the liquidity risk is performed by preparation of a forecast for the inflow and outflow for the next day, week, month, as these are basic periods for the management of the liquidity risk. These forecasts are based on an analysis of the contractual maturity of financial liabilities and the expected maturity of financial assets as well as the behavioral expectations.

Medium-term assets, undrawn credit commitments, utilization of overdraft lines and the impact of off-balance sheet commitments, such as guarantees and letters of credit, are also monitored and analyzed.

The Bank periodically reviews and monitors certain liquidity ratios, which are considered representative in terms of early detection of possible liquidity problems. Coefficients covering the quality of receivables, the stability of liabilities, the marketability of liquid assets, the market environment and other quantitative and qualitative indicators are monitored.

**e) Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.**

Daily the development of the liquidity situation is monitored by applying different scenarios

for the bank to estimate its liquidity gaps and structures, incl. liquidity needs. Going concern scenario, i.e. the bank operates under normal market conditions, scenarios of market and reputational crisis, as well as scenario combining market and reputational crisis at the same time, which is the most negative scenario. Different scenarios are closely monitored because RBBG must meet the need for additional liquidity under different types of market conditions. Currently, RBBG has a significant liquidity buffer, as seen from the LCR and NSFR values and the measurement of the Funding Liquidity Risk during the past year, hence no need for additional funding to cover any liquidity gaps.

**f) An outline of the bank`s contingency funding plans.**

To complete the framework for effective risk management, the Bank has in place an appropriate contingency plan for unexpected circumstances. The Bank's position is monitored both through the limits set at the level of "stress scenario" and through predefined early warning indicators for timely detection of the first signs of deterioration arising from negative impacts. In this way, the focus is on the smooth operation of the process for early identification of potential signs of vulnerability to adverse events, the launch of an escalation procedure, and the implementation of a contingency plan.

The contingency plan outlines the strategy that the Bank would follow in the event of a liquidity shortage in case of adverse circumstances. The development of stress tests and the adjacent scenario analysis are used as a starting point for the formulation of the plan. The purpose is to determine the worst-case scenarios and the factors leading to their realization.

The factors leading to negative consequences are conditionally divided into two groups – external and internal for the Bank. According to the severity of the occurrence of the factors (alone or in a combination), the level of crisis is determined - A, B, or C, with C expressing the most unfavorable condition. There are predefined external and internal factors that are subject to monitoring.

Based on the information provided, the ALCO determines the existence and extent of a liquidity crisis. The valuation of the level of the crisis allows tracking its development (both positively and negatively) and adapting recovery measures.

**g) An explanation of how stress testing is used.**

The liquidity risk stress tests are part of the liquidity management framework of the Bank. They are built based on assumptions about the impact of macroeconomic factors and the business model of the Bank. The stress test results show the Bank's resilience to internal and external shocks in different time horizons. The liquidity risk stress tests are used as a tool for control and limiting the sources of risk, as well as a prerequisite for making adequate business decisions that affect the risk profile of the institution.

The liquidity risk stress tests are conducted daily and the results of the stress tests are presented to the management of the Bank during the regular meetings of ALCO. If required, stress tests with different assumptions may be created (assumptions formulated by ALCO). The preventive actions taken are according to the liquidity crisis action plan.

The main internal instruments for measuring, monitoring, limiting and steering the liquidity position on a Group and Local level are the internal "Going Concern" and "Time-to-Wall" (stress test) reports.

In line with requirements introduced at European level, three types of stress test scenarios are applied, based on different hypotheses for adverse conditions:

- Idiosyncratic/Name crisis: Loss of market confidence in an individual bank or banking group (equivalent to a multi notch downgrade)
- Market crisis: Sudden turmoil in capital/money markets (including the decline of the market value of financial assets)
- Combined crisis: Simultaneously occurring name and market crisis.

Based on the predefined assumptions, the stress tests aim to show the cash inflows and outflows under the weight of a specific scenario within time intervals, as well as the Bank's capability to withstand unfavorable conditions.

Analyzing the three types of scenarios allows creating a full picture of the possible negative consequences for the Bank under unfavorable conditions. This approach achieves the wholeness of the risk management tools as it provides an opportunity to recognize issues at an earlier stage.

For more precise identification of the potential risk sources, as well as accomplishing overall

understanding of the liquid position from different perspectives, the Bank considers the scenarios mentioned above in all material currencies. An individual currency is material if currency dependent assets in total reach or exceed 5% of total assets or if currency dependent liabilities in total reach or exceed 5% of total liabilities. This approach also allows taking adequate actions for maintaining the institution's operations, as it optimally avoids the risk of price increase during shortage coping through foreign currency financing.

The stress test results for each material currency are evaluated based on the established limit system, set in different time horizons.

Inseparably from the understanding of ensuring Bank's operation in long-term is determining a minimal "survival period" based on the scenario intervals. In this time horizon the Bank should be able to counteract crisis events through its liquid buffer without the need to change its business model.

The "Survival period" is set to 30 days and with a conservative purpose extended up to the 60- and 90-day time bands with applied countermeasures. The last was adapted on a group level. In these periods, the survival ability is ensured not only by the liquid buffer but also through alternative strategies for accessing resources (predefined and approved countermeasures). The predefined specific countermeasures are in harmony with the principles needed for developing a Recovery plan of the Bank.

**h) A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in the EU LIQ1 template under this ITS) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body. These ratios may include:**

- **Customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank**

The main instruments for measuring, monitoring, limiting, and steering the liquidity position of the Bank are the internal "Going Concern" (GC) and "Time-to-Wall" (TTW stress test) reports. The liquidity position is constrained by a set of limits applied on both scenarios (more information regarding TTW is presented in EU LIQA g). The liquidity limits define the

liquidity discrepancies (gaps) that the Bank is willing to accept. These discrepancies represent the difference between the cash outflow (e.g. liabilities subject to withdraw) and the cash inflows (e.g. maturing assets) in a predefined period. The GC modelling for on-balance positions is conducted based on a set of presumptions which comes either from historical observations or business knowledge and experience. The model for off-balance sheet positions is based on expert opinions and differentiates between contingent liabilities (mostly guarantees) and commitments.

- **Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity**

The funding strategy of Raiffeisenbank (Bulgaria) EAD assumes stability and diversification of funding sources and guarantees access to several alternative sources to meet liquidity needs, while optimizing the cost of financing.

The process of preparing the funding strategy includes the identification and planning of the relevant sources of financing from external suppliers and the Raiffeisen Group, as well as the preparation of financing plans and subsequent monitoring of their implementation and optimization. Sources of funding are presented and approved by the local Assets and Liabilities Management Committee (ALCO) at least once a year.

Funding sources for diversification may include:

- increasing the amount of customer deposits - by attracting medium-term and long-term deposits from individuals with a focus on deposits that are not affected by interest rates (stable deposits), as well as by attracting long-term corporate deposits (at least one-year)
- continuous analysis of the largest depositors and communication with customers before the maturity of their deposits to extend the financing period and to maintain active relationships
- securitization / sale of part of the Bank's loan portfolio
- syndicated loans with traditional for the Group partners
- negotiating standby funding lines

- negotiation of credit lines under financing programs of the European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), KfW (German Development Bank), etc.
- issuance of debt securities (with different maturity structure and currency).

The preparation of the annual funding plan considers the funding needs arising from (a) the planned/ budgeted strategic development of the balance sheet, (b) the regulatory liquidity coverage/net stable funding ratio requirements and (c) RBI group's internal liquidity limits.

The following liquidity measures are monitored on an ongoing basis:

- **Maturity mismatch:** arising from the mismatch between clients' needs to borrow over a longer term and the short-term maturity of term deposits available on the interbank markets. This gives rise to maturity transformation affecting the bank's liquidity position.
- **Currency mismatch:** arising from the mismatch between the currency in which lending and investment are denominated and the currency in which available funding is denominated. This could lead to the need for FX transactions including swaps which could be costly and difficult to manage given volatility in local and international FX markets.
- **Limited transferability of liquid resources within RBI Group** due to cross-border limits, legal restrictions, and other regulatory and tax requirements, which could lead to a sub-optimal distribution of assets and liabilities on group level.

To diversify its sources of funding, RBBG may look to negotiate funding from international financial institutions. The process is done in accordance with the procedures for Negotiating funding schemes with International Financial Institutions and Banks outside of RBI group for the benefit of RBBG and its subsidiaries.

The annual funding plan is approved as part of the Budgeting process each year.

The consolidation of Raiffeisen Group in Bulgaria comprises of 2 units - Raiffeisenbank Bulgaria (RBBG) & Raiffeisen Leasing Bulgaria (RLBG). RLBG is mostly funded by RBBG, including RBBG's 100% equity holding.

RBBG's main source of funding is customer deposits. 77% of the deposit base is from retail clients and 21% is from corporate customers. RLBG's main source of funding is RBBG.

## 2. QUALITATIVE INFORMATION EU LIQB - LCR

### **a) Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time**

The table EU-LIQ1 in Pillar 3 Annex presents the average values for the end of each quarter of 2021 of the high-quality liquid assets of Raiffeisenbank (Bulgaria) EAD, the cash outflows, the cash flow inflows, as well as the obtained Liquidity Coverage Ratio, according to the requirements mentioned in the Guidelines on the disclosure of the Liquidity Coverage Ratio to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) N° 575/2013 (EBA / GL / 2017/01). The "Total unweighted value" column shows the average values for each LCR category that have not been adjusted for the relevant risk weight. The column "Total weighted value" represents the unweighted average values multiplied by the respective risk weight for each category of LCR calculations.

Raiffeisenbank (Bulgaria) EAD strives to maintain levels of the Liquidity Coverage Ratio exceeding the recommended minimum of 100%, to ensure a stable liquidity position in the short and long term. The Bank has also adopted an early warning signal regarding the value of the ratio, which amounts to 110% and this is in accordance with the imposed group practices. In line with this strategy, in 2021, the relevant limits were not violated.

Raiffeisenbank (Bulgaria) EAD maintains stable levels of HQLA, which gradually increased during 2021. This applies both to the total available liquid assets in the Banking Portfolio and to only those eligible for LCR purposes. In 2021, they continue to be well diversified in the main operating currencies for the Bank (BGN, EUR, USD). The total net outflows increased slightly during the year due to an increase in the total cash outflows. The main driver of the increase in the total cash outflows is the increase in the retail and operational deposits. The total cash inflows remained stable during the year.

Within the year, the level of the coefficient is between 334% and 367%, significantly above the regulatory imposed minimum and the internal early warning values.

### **b) Explanations on the changes in the LCR over time**

From the beginning of the year until the end of the first quarter we have an increase in the LCR final values, which is due to a decrease in total net cash outflows (Unsecured wholesale funding). TOTAL NET CASH OUTFLOWS reflect the increase in TOTAL CASH INFLOWS, as the

final value of the denominator depends on the weighted values of the outflows and inflows. During this period there is a significant increase in the inflows from fully performing exposures.

In the second quarter we have an increase in HQLA, Operational deposits and deposits in institutional networks of cooperative banks compared to the first quarter. The slight increase in NCO resulted in a slight decrease in LCR values during this period. There is an exception in May, as the higher level of TOTAL CASH INFLOWS (increase in Inflows from fully performing exposures) results in an end value for LCR which exceeding the group requirement by 310%.

In the third quarter of 2021, values remain above the Group's requirements (110%) with about 200-240% excess. HQLA continues to increase gradually as well as the Retail deposits and deposits from small business customers. This results in a slight decrease in the LCR ratio.

In October, the LCR ratio increased significantly to 443%, which is due to a significant rise in Inflows from fully performing exposures, incl. Money market placements and deposits. During the last quarter of the year the ratio returns to its usual level. As of the end of the year additional asset shifts are made to optimize the PnL, which are reflected in the LCR ratio.

In conclusion, RBBG maintains LCR level, with lowest observed value for 2021 of 265% - well above the group minimum of 110%.

### **c) Explanations on the actual concentration of funding sources**

The model for measuring concentrated funding is built upon the definition of funding concentration limit. The limit is fixed at 0.5% of the arithmetic mean of total liabilities and is applied on daily basis to the liquidity risk calculations. It is kept constant for a period of 6 months to avoid dynamic jumps.

The general idea of the concept is the following: If a mother company exists, then the mother company is considered (instead of the original counterparty) for the calculation of the funding concentration risk. Consequently, the inclusion of the Group of connected customers causes potentially higher funding concentration risk values in comparison to the original setup of the funding concentration risk.



The volume of Group of connected customer's funding (both sight deposits and term deposits) is compared to concentration limit and in case the latter is exceeded, then the group of customers in question is treated as a "concentrated customer".

The regular monitoring allows timely corrective action to reduce excessive concentrations and adaptation of the funding structure to increase diversification. The corresponding volumes are modelled as an immediate outflow in the 1-day time band within Going concern and Time to Wall reports under the assumption that the Bank should not rely on big customers in times of crisis.

In 2021, the Bank maintained a low level of concentrations amount – between 52 and 184 BGN mln. The average amount for 2021 is 114 BGN mln.

**d) High-level description of the composition of the institution's liquidity buffer.**

Liquidity buffer is the bank's capacity to withstand a predefined short-term liquidity shock. The Buffer must be able to provide the Bank with the liquidity needed in a defined period, called survival period. According to the liquidity risk management framework, the survival period is 3 months with a focus on the first 30 days.

**The liquidity buffer consists of:**

- 1) cash and cash equivalents
- 2) high-quality liquid assets (assets that can easily generate liquidity in the short term).

**Cash and cash equivalents include:**

- Cash and cash balances with BNB
- Minimum reserve requirements
- Balances on current accounts with other banks and interbank deposits with a term of up to 7 days
- Interbank deposits with a term between 7 and 30 days.

**The high-quality liquid assets are:**

- Readily available
- Traded on liquid secondary market
- Eligible as collateral in compliance with Ordinance No.6 of BNB
- European Central Bank eligible.

For long-term liquidity buffers (at least 30 days), other appropriate assets can be admitted,

given that the Bank can demonstrate the ability to generate liquidity from them under stress within the specified period of time.

Part of the liquidity buffer may comprise of Stand-by Facilities (signed and committed). For the purposes of liquidity management, the cash inflow is disclosed in accordance with the legally binding notice period. As of the end of 2021, the Bank does not have signed/committed stand-by agreements.

The size of the liquidity buffer is defined by the liquidity needs and the budget aims of the Bank. When determining the size of the liquidity portfolio the Bank must abide by the liquidity criteria (given by the local regulator and by the Raiffeisen Group), as well as to monitor the volume of securities needed to cover the budget funds and other credit commitments (mostly long term). The Bank maintains a portfolio of liquid assets that is always able to:

- cover the current and expected liquidity demands
- ensure the needed securities to cover budget funds
- cover the regulatory defined liquidity buffers.

To make sure that it maintains a balanced and high-quality liquid portfolio, the Bank has enforced internal limits for risk and diversification. Monitoring the internal limits, the Bank ensures that the portfolio is well diversified and the risk of assets over concentration is avoided. The investment limits allow the Bank to invest only in bonds with a minimal rating of 'BB'.

#### **e) Derivative exposures and potential collateral calls**

During its operations or if necessary, Raiffeisenbank (Bulgaria) EAD executes diverse types of transactions with derivatives:

- Currency derivative financial instruments: currency forwards and currency swaps
- Interest rate derivative financial instruments: interest rate swaps in one currency and interest rate swaps in cross-currencies.

The Bank exercises strict control over compliance with the limits on the size and maturity of net open positions in derivative instruments (i.e., the difference between purchase and sale agreements), considering the structure of transactions in terms of currency, term, and face value.

The expected inflows and outflows of derivative transactions are incorporated in the Bank's liquidity risk models, applicable both at the group and local level. In addition, Raiffeisenbank (Bulgaria) EAD maintains sufficient levels of high-quality liquid assets as well as liquidity buffer in order to meet the need for an unexpected collateral or other potentially adverse developments.

**f) Currency mismatch in the LCR**

On a Group level, a specific concept is adopted according to which a currency is considered significant if the assets in that currency reach or exceed 5% of the total assets or liabilities denominated in that currency.

The bank operates with the following main currencies: US dollars, euros, British pounds, Swiss francs as well as some other frequently traded currencies. The main part of the available liquidity in the Bank is denominated in EUR and BGN, a smaller but not insignificant part in USD. The existence of a Currency Board in Bulgaria reduces the sources of currency risk to that arising from changes in the exchange rate euro / dollar or other currency pairs. Potential exposures resulting from these fluctuations in currency pairs are closely monitored on a daily basis. If necessary and with sufficient availability of USD liquidity, the Bank could enter a currency swap to improve the liquidity position in EUR and / or BGN.

The Bank monitors and reports to the Regulators on a monthly basis the development of the Liquidity Coverage Ratio, both at the level of all currencies and in the main operating currencies EUR and USD. In addition, the information is reported to the management in the monthly meetings of the Assets and Liabilities Management Committee (ALCO).

**g) Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile**

No items available according to the definition.

**Quantitative** information is reported in the Pillar3 Annex about LCR and NSFR in

<a href="#">EU LIQ1</a>	Quantitative information of LCR
<a href="#">EU LIQ2</a>	Net Stable Funding Ratio

## 21. USE OF THE IRB APPROACH TO CREDIT RISK – ARTICLE 452

RBBG applies as of 31.12.2021 two IRB Approaches for credit risk:

Foundation - Several rating are applied depending on the asset class of the respective debtor:

- Large Corporate Rating Model;
- Regular Corporate Rating Model;
- Small and Medium Business Rating Model;
- Sovereign Rating Model;
- Financial Institutions Rating Model;
- Insurance Rating Model;
- Specialised Lending Rating Model (Slotting Approach);

Advanced IRB – Several scoring models

- Scoring models for individuals;
- Scoring models for microenterprises.

RBBG offers to the two retail segments a variety of products, and for the majority of those, RBBG has obtained regulatory approval to use the Advanced Internal Ratings-Based (A-IRB) approach to capital requirements for credit risk.

The calculation of the capital requirements for credit risk for the relevant asset classes is based on the allocation of the credit portfolio by rating categories as a result by the application of the internal models.

Local and Regional Governments Rating Model is currently under the Standardized Approach to capital requirements for credit risk (regulatory approval received in January 2017).

The exposure types to which Raiffeisenbank (Bulgaria) EAD has the permission to apply **permanent partial use of Standardized Approach** are:

- **according to art. 150(1)(c) of Regulation (EU) 575/2013:** exposures in non-significant business units as well as exposure classes or types of exposures that are immaterial in terms of size and perceived risk profile.

- **according to art. 150(1)(d) of Regulation (EU) 575/2013:** exposures to central governments and central banks of the Member States and their regional governments, local authorities, administrative bodies, and public sector entities provided:
  - there is no difference in risk between the exposures to that central government and central bank and those other exposures because of specific public arrangements; and
  - exposures to the central government and central bank are assigned a 0 % risk weight under Article 114(2), (4) or (5).
- **- according to art. 150(1)(j) of Regulation (EU) 575/2013:** State and State-reinsured guarantees referred to in Article 215(2).

Standardized Approach is applied also to other non-credit obligation assets – cash, cash items in process of collection, tangible fixed assets, and suspense accounts.

Further **Quantitative** information is reported in the Pillar3 Annex

<a href="#">EU CR6</a>	IRB approach – Credit risk exposures by exposure class and PD range
<a href="#">EU CR6-A</a>	Scope of the use of IRB and SA approaches
<a href="#">EU CR8</a>	RWEA flow statements of credit risk exposures under the IRB approach
<a href="#">EU CR9</a>	IRB approach – Back-testing of PD per exposure class (fixed PD scale)
<a href="#">EU CR5</a>	Standardised approach

**EU CR9** – IRB approach – Back-testing of PD per exposure class additional information:

Historic default rate covers 5 consecutive non-overlapping years starting from 31.12.2016 to 31.12.2021. The default rate is calculated based on the number of performing clients in the current portfolio in the end of each year and the number of clients in default in the next 12 months.

Probability of default (PD) in Retail portfolio represents weighted average of the parameter estimates within one internal grade in the respective exposure class, weighted by EAD and number of obligors.

PD values within the different exposure classes are lower in comparison to the 5-year default rates due to the favorable economic environment. Performed comparison by exposure class and internal grade accounts for coherence.

## 22. USE OF CREDIT RISK MITIGATION TECHNIQUES – ARTICLE 453

The bank uses policies and practices for credit risk mitigation. The most traditional

technique is by acceptance of collateral. The bank uses rules for establishment of acceptable classes of collaterals or credit protection.

To achieve effective credit risk mitigation, the bank:

- Ensure agreements for credit protection, which are legally effective and enforceable in all relevant jurisdiction.
- Takes proper actions for ensuring effectiveness of credit risk protection agreements.
- Has procedures for effective management and control of risks deriving from actions connected with credit risk mitigation and expected loss.
- Performs complete valuation of credit risk of long positions by reporting credit risk mitigation or expected loss.
- Reviews and monitors by proper written rules and procedures the residual risk deriving from low effective risk protection than expected from the applied techniques for credit risk and expected loss.

Main collateral types recognized by the bank are:

- Mortgages of real estates – residential, commercial, industrial, agricultural, raw land, etc.
- Cash.
- Pledge of machines and equipment, inventory, receivables, commodities.
- Bank guarantees and counter guarantees.
- Portfolio guarantees issued by international or national institutions.
- Pledge of financial instruments as bonds, equities

The bank uses netting of Reverse repo-deals with the Debt securities or Repo with Cash as collateralization when there is such business case.

Credit risk mitigation techniques are strictly subject to independent legal opinions which affirm the enforceability of the applied master agreement.

For OTC derivatives, RBBG as part of RBI group has established standardized ISDA master agreement with RBI in order to perform close-out netting. With another financial counterparty, RBBG has entered into credit support annex (CSA) for full risk coverage for positive fair values on a daily basis.

When determine the policy for acceptable collaterals the bank follows group directive of RBI for collateral evaluation. According to this directive only collaterals described in it are taken for collateralization of secured exposures.

**Valid legal title** - The bank's legal title (not only represented by the underlying collateral contract but also considering all other steps like filing, registration, etc.) to the collateral is properly documented and legally enforceable under the applicable jurisdiction. The track record of jurisdiction in the country must ensure enforceability of the collateral by banks.

**Sustainable intrinsic value** - The collateral has sustainable intrinsic value at least for the total tenor of regularly monitored and evaluated underlying credit contracts. In case of decrease in value, technical condition, etc. it is the Bank's right to ask an independent appraiser for a new external appraisal report. In a case of market value decrease, appropriate measures are taken to reflect this decrease and additional collateral may be asked to cover the Bank's requirements for collateralization upon initial approval of secured exposures.

**Realizable and willingness to realize** - the collateral must be realizable in cash within reasonable time, proven by a favorable track record for assignment and realization of collateral according to Bulgarian legislation.

**Little or no correlation** - there shall be little or no correlation between the credit standing of the borrower and the value of the collateral (example of high correlation: a bond issued by the borrower used as collateral)

To apply more conservative approach to evaluate collateral realization the bank uses minimum discounts for correction of accepted market value, applicable for all network units of RBI. The purpose of this correction is to compensate the eventual risk of volatility of collateral prices, and any other risks connected with collateral realization.

Of significant importance for unfunded protection is the collateral provider and the conditions under which is the contract for credit protection. Collateral provider must be eligible and credit protection legally effective in all relevant jurisdictions. It is the main method to achieve proper level of security of credit protection, after recognizing the effect of credit risk mitigation techniques

The bank has no open exposures in credit derivatives or collateralized ones.

The bank monitors for potential concentration of risk, deriving from usage of techniques for credit risk protection. These techniques should correspond to the risk profile of the bank.

Further **Quantitative** information is reported in the Pillar3 Annex

<a href="#">EU CR3</a>	CRM techniques - Overview
<a href="#">EU CR4</a>	Standardised approach -Credit risk exposure and CRM effects
<a href="#">EU CR7</a>	IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques
<a href="#">EU CR7-A</a>	IRB approach – Disclosure of the extent of the use of CRM techniques

### 23. DISSEMINATION OF INFORMATION

This information is disclosed annually in compliance with Part Eight of Regulation (EU) 575/2013 on the Bank's website [rbg.bg](http://rbg.bg) under section Annual Reports.



Martin Pytlík

Executive Director



Stefan Ivanov

Procurator