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# FINANCIAL AND SUSTAINABILITY REPORT



**Postbank**

*Solutions for your tomorrow*







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# FINANCIAL AND BUSINESS REVIEW

TALENTS

win games, teams win championships.





## Dear Shareholders,

I am proud to present to you another record year in the history of Postbank. We achieved a net profit of more than BGN 136 million, a solid 14% improvement, compared to the previous year. The return on equity remained at 11.2% despite the higher base it was calculated on. We kept expanding our balance sheet and were one of the fastest growing banks in the country. Our sound business strategy, focused on profitability, innovations and excellent customer service, continued being the secret of our success. Last year, our goal was to strengthen our positions in all key segments, to improve customer experience and to develop innovative banking solutions. We aimed our efforts at achieving a balance between traditional banking and new technologies, developing the alternative channels through which we can serve our clients faster and better in order to be even more successful in the next years.

The economic conditions were favourable. The real GDP growth of the Bulgarian economy in 2017 was 3.6%, driven mainly by consumption and investments, which grew by 4.5% and 3.8% respectively. The unemployment rate has reached historically low levels, while the average salary has risen by 9% in the last three years, thus improving the sentiments of consumers and encouraging them to spend more. The optimism was also felt by companies, which rushed to explore the new business opportunities leading to the highest growth in investments in the last eight years. The rising prices of oil, food and services brought the consumer price index to 2.8% at the end of 2017, before falling again at the beginning of 2018.

Given the sound macroeconomic framework, it was not surprising that the banking system had another good year. Confidence in the system remained strong – companies and households added nearly BGN 4.3 billion to their savings, strengthening the liquidity position of banks and further suppressing the interest rates on deposits. As the extra liquidity could not be quickly utilized as lending, the pricing pressure on new loans continued, further eroding the income of banks. Nevertheless, due to the control over the administrative and provisioning expenses, the net profit of the system is comparable with the

previous year's results. In order to overcome the trend of the falling income, banks stepped up their lending activities and tried to find other sources of income. 2017 has been one of the most successful years in terms of new lending volumes since the crisis with total loans growing by BGN 1.6 billion to BGN 56.1 billion. At the same time, the volume of non-performing exposures decreased by almost the same amount, signalling that banks were eager to deal with the legacy from the past.

Despite the competitive environment, Postbank managed to outperform the market in every aspect – assets, loans and deposits increased faster than the average and the Bank gained a market share across all key segments. What is more important is that we were able to do it organically and with minimal deployment of new resources. We strengthened our position as a trusted partner of business, both large and small, as well as of households. We notice that the loyalty of our clients is increasing, which is the best recognition for us, and we want to thank them for that.

We increased our lending portfolio, focusing on secured and business loans. The loans to small businesses remained practically unchanged but we expect them to rise again in 2018 due to the positive economic environment and the new programmes, aimed at encouraging the lending to small- and medium-sized enterprises. On the other hand, regarding the corporate banking segment, we made a significant progress towards achieving our goal to be among the leaders in the market. Thanks to the professionalism and the expertise of our teams, in 2017, we expanded our lending to companies by nearly 20%, improving our ranking to become one of the top three companies in terms of corporate lending. In the factoring segment, we kept our number one position in the market for the fifth consecutive year and achieved a total turnover of more than EUR 1 billion. Our efforts were noted by the business community and Postbank was honoured with the business award for quality by the biggest employer association in the country – Confederation of the Employers and Industrialists in Bulgaria (CEIB).

In 2017, we continued improving and changing the way we service our retail clients. We know that fast and quality service is among the key requirements of our clients today and this is why we focused on shortening the time between the submission of loan applications and loan granting. With this in mind, we created the specialized centres for express lending Momento. The new centres are part of the strategy of the Bank for developing digital lending channels in order to achieve sustainable customer experience. Clients were also offered the service Bankers at Your Side (direct sales agents), in which our mobile banking experts consult them at convenient time and place. At the same time, we continued developing our specialized centres for consumer and mortgage lending, and strengthened the sales force in the Bank's branches. As a result, we increased the new production by 50% YoY and our volume in household lending to BGN 2.3 billion.

Despite the increased lending, our liquidity positions remained robust as the growth of loans was fully matched by the same amount of new deposits. Throughout the year, our clients deposited additionally BGN 556 million with us, while the attracted new deposits from companies were more than in any other bank in the country. Optimizing the deposit mix allowed us to halve once more the interest expenses and increase the net interest income of the Bank.

As the interest rates on the deposits remained historically low, clients showed keen interest in alternative forms of saving. In 2017, we managed to increase by more than 40% the sales of the mutual funds we offer in a close cooperation with other companies from our group and we see as possessing further potential for expansion. We kept our number one position as the biggest custodian bank in the country, by servicing the largest number of collective investment schemes and being an exclusive partner of one of the biggest custodians – Clearstream Banking – Luxembourg. Already a tradition, Postbank was awarded as the best custodian bank in Bulgaria by Global Custodian magazine for the seventh year in a row.

In this constantly changing world, we need to keep innovating and launching new products and services in order to stay ahead of our competitors. We developed the new special credit programme, called More Today, which set new standards in consumer lending in Bulgaria. It enables our clients to increase their disposable income by 50% or more in certain cases. The new innovative credit card Mastercard Cash, with which our clients can withdraw cash without paying interest within the grace period, and Super @ccount – the new payroll account, are just two more examples along with the launch of the first on the market structured deposit INDEX. As a modern bank which cares for the environment, we introduced e-signing of documents within the entire branch network – the first but very important step in becoming a truly paperless bank.

Part of our mission has always been to give back to the society. Postbank is a socially responsible



company for which the investments in sustainable business development are an important element in its activity. We are an active member and support many of the initiatives of our partners from CEIB, AmCham, HBCB, Endeavor Bulgaria, Atanas Burov foundation and many more. In addition to supporting external social responsibility projects, we created in 2017 our own one – Heroes in Green, which aims at encouraging environmentally friendly behaviour in our employees. Our efforts did not remain unnoticed and we won 17 prestigious awards, which turned Postbank again into the most awarded bank on the Bulgarian market. In January, we received Deal of the Year Award in Forbes Business Awards by Forbes magazine for the acquisition of Alpha Bank – Branch Bulgaria. Our business efforts and results were awarded also by CEIB, as mentioned above, and by Association Bank of the Year, which recognized us with the Bank of the Year Award in the Dynamics of Growth category. Our outstanding CSR and corporate communications won a total of eight awards by b2b Media, Bulgarian PR Society and in Effie Bulgaria competition where we received the gold Effie award and Postbank was distinguished as Most Effective Brand in Bulgaria. We were also named Top Custodian Bank by Global Custodian magazine and our partner Western Union bestowed us with the Business Development 2016 award.

It goes without saying that none of these achievements would have happened without the motivation and active participation of our most valuable asset – our employees. I want to express my gratitude to them because these results would not have been possible without their dedication, loyalty, ambition and hard work. Therefore, in 2017, we developed a comprehensive strategy for employer branding, including various initiatives for improvement of the work environment, successful attraction and retention of talent, opportunities for professional development and engagement in projects and campaigns. I am glad that Postbank received the prestigious Employer of the Year Award for 2017 from the first Employer Branding Awards of b2b Media. Last but not least, I want also to thank our colleagues from the Head Office and our shareholders for their cooperation, support and advice, which made a valuable contribution to our successes.

We started 2018 stepping on solid foundations. We kept our liquidity and capital adequacy ratios at levels well above the regulatory requirements, ensuring that we have sufficient resources to support our future expansion plans. Last year we felt confident enough to propose returning some of the excess capital to you, the shareholders of Postbank, in order to see the true return on your investments. This is our way to express our gratitude for the unwavering support in all these years you have been behind us every time we needed it for expansion plans – be they organic or through acquisitions.

For the future, we have set even more ambitious goals. Innovations are already an integral part of our strategy and we will continue investing in new digital solutions in order to provide seamless service to our clients and improve their experience. Our ultimate goal is to be their bank of first choice for their daily banking activities and long-term financial needs. I am convinced that we can achieve this and we will be looking forward to many more successes because we have the resources, the right qualities and the team to turn Postbank into the most acclaimed digital and modern bank in the country.

Sincerely,  
**Petia Dimitrova,**  
Chief Executive Officer and Chairperson of the Management Board of Postbank

## BANK PROFILE

### IMPORTANT EVENTS DURING THE FINANCIAL YEAR

**Postbank**, legally registered as Eurobank Bulgaria AD (the Bank), is the fifth biggest bank in Bulgaria in terms of assets. It has a wide branch network across the country and considerable customer base of individual customers, companies and institutions.

The Bank has a 27-year presence among the Bulgarian banking market leaders. It has been a leading factor in innovations and a trend setter in the country's banking sector in recent years and has been awarded for its innovations many times. The financial institution is holding a strategic position in retail and corporate banking in Bulgaria. The Bank is among the market leaders in credit and debit cards, housing and consumer lending, savings products, as well as in corporate customer products – from small companies to major international companies represented in the country. The financial institution has one of the best-developed branch networks and modern alternative banking channels.

Postbank won the prestigious Employer of the Year Award for 2017 in the first annual Employer Branding Awards of b2b Media. The financial institution was recognized for its comprehensive strategy for building an employer brand, which includes various activities to improve the working environment, the successful management, development and retaining of talents, the opportunities for professional development and involvement of employees in projects and campaigns aimed at improving the state of the environment and supporting the society.



In June 2017, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's long-term rating of BB+ and its short-term rating of B, with positive outlook. The Bank's long-term rating in the national rating system was also confirmed at A-(BG), with positive outlook.

Postbank continued developing modern banking products and services, which are unique for the market, and giving real added value to customers throughout the year. Following the example of the innovative financial practices around the world and to meet the expectations of the modern consumer, in September 2017, the Bank invested in the development of Momento – an entirely new brand for innovative consumer lending, which it will continue developing in 2018. The Bank's financing provided in the special Momento centres focuses on convenience, speed and individual approach. The new centres are part of the Bank's strategy for developing digital financing channels and are aimed at achieving sustainable consumer experience. In 2017, Postbank continued developing its specialized consumer and housing lending centres for the convenience of its customers across the country.



In 2017, Postbank won an award in the Quality category of the third annual awards for successful business of the Confederation of Employers and Industrialists in Bulgaria (CEIB). The prestigious accolade was given to the financial institution for the development of high-quality products, modern service channels, web-based services and sustainable benefits for its customers. The Bank also won the prestigious award in the Dynamics of Development category in the annual awards of the Bank of the Year Association.

In August, the global leader in payment services Western Union (Western Union Regional Business Team Bulgaria) awarded Postbank with the special prize for Business Development for 2016 and distinguished it among the partner banks of the organization. The accolade was bestowed for the high quality of the services offered in all branches of the financial institution in the country and for the reported transaction growth.

*Global Custodian* – the world’s most prestigious magazine in custodian services, known for its annual surveys which are accepted as a benchmark in the sector – named Postbank the Top Custodian in Bulgaria for the sixth consecutive year. The Bank once again achieved the highest scores in all categories. Postbank is the biggest depository bank in Bulgaria – it has the highest number of collective investment schemes serviced and is an exclusive representative of one of the biggest European depositories – Clearstream Banking – Luxembourg.

The financial institution won the award Best Bank in Bulgaria in Commercial Financing in the Global Banking & Finance Review’s annual ranking for 2017.

Postbank expanded the options for corporate funding at favourable conditions by signing a EUR 70 million guarantee agreement with the European Investment Fund (EIF) under SME Initiative Operational Programme. The agreement is to provide a guarantee on the loans issued by the Bank with 60% coverage by the EIF. The Bank supported the national contest of *24 Chasa Daily*, *The Big Small*, for the third consecutive year because it believes in the importance of small business.

Postbank retained its leading position in the factoring services market in terms of purchased receivables and was a number one factor in Bulgaria for the fourth consecutive year with a 37% market share of the total volume of factoring services and with an over 68% share of export factoring. The Bank attracted both new corporate customers and new partners to its existing customers, thus building a stable and profitable portfolio.

Additionally, Postbank reported a 50% housing lending increase on an annual basis. According to the Bank’s data, mortgage business is developing faster in major cities, such as Sofia, Varna, Burgas, Plovdiv and Stara Zagora, where the financial institution reported a double-digit hike. The increase in Blagoevgrad, Dobrich and Veliko Tarnovo even exceeded 100%.

Postbank continued organizing the series of specialized conferences in support of the business in the country, entitled Postbank Meets Business, throughout the year. In 2017, the Bank’s team visited Burgas, Varna, Russe and Haskovo. At the meetings, the Bank’s experts presented strategic solutions in support of the business in the respective regions to the local companies.



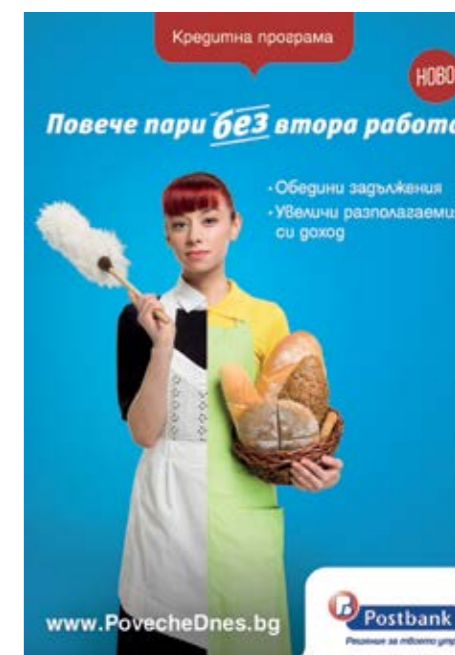
Postbank continued developing its modern Private Banking centre through its partnership with Eurobank Private Bank Luxembourg and its fully specialized and strictly personalized private banking services. The Bank’s customers can benefit from a set of discretionary asset management and business consulting services.

At Postbank’s invitation, eight Bulgarians took part in the Beyond Hackathon competition, which is part of the Eurobank’s Innovations Centre’s initiatives and is aimed at inspiring, developing and promoting open innovations in financial services. The Bank supported the competition for the second consecutive year. One of the Bulgarian teams impressed the jury with its idea to implement an easy way to make donations using the Banks’ loyal customer programmes.

## NEW PRODUCTS

In 2017, Postbank introduced more innovative products and services focusing on providing convenience and additional benefits to its customers.

The More Today lending programme is Postbank’s latest financial solution, which set new standards in consumer lending in Bulgaria. It enables customers to increase their disposable income by up to 50% and even by more in certain cases. It includes a wide range of lending products with which customers can consolidate their debts on credit cards, consumer and mortgage loans of up to BGN 100,000 quickly and easily. Beside the better personal finance management, the programme allows users to save time, paying one smaller instalment in one bank on a set date. The More Today lending programme is one of the most successful products of the financial institution. It brought the Bank a gold Effie prize in the prestigious contest of Effie Bulgaria and won the first place in the New Service category in the marketing excellence contest BAAwards 2017, organized by the Bulgarian Association of Advertisers.



Postbank presented another new product to its customers in 2017 – the innovative credit card Mastercard Cash, which allows consumers to withdraw cash without interest. It won a bronze prize in Effie Bulgaria’s Services category. Postbank was also named Most Effective Brand according to the Effie Index Bulgaria 2017.

In March, the Bank offered its customers another new product, which is unique for the Bulgarian market, after carrying out an in-depth survey in consumers’ sentiments. Supper @ccount is an innovative payment payroll account, which enables customers to remove the monthly fee by themselves and to even receive monetary bonus by using it actively every day. The new product encourages more inexpensive and convenient electronic payments and provides monthly bonuses. Thus, instead of paying a monthly fee, customers can enjoy a serious financial advantage of their payroll account. The Bank automatically removes the monthly maintenance fee for carrying out only five electronic transactions, such as cash withdrawal via an ATM, payment via a POS terminal in an outlet or when shopping online, per month. Moreover, upon the payment of three utility bills via the online (e-Postbank) or mobile banking (m-Postbank), customers will receive additional monetary bonus equal to the monthly maintenance fee.

In April, Postbank launched its modern and convenient Mobile Bankers service in three more towns in the country. In addition to Sofia, mobile bank experts now consult the Bank’s existing and future customers in Plovdiv, Varna and Burgas. The service is a free-of-charge professional consultation, as experts provide solutions tailored to meet the specific needs of customers and assist them in filling in the required documents and submitting them with the Bank’s office. Mobile bankers answer all questions related to consumer and housing loans, overdrafts, and credit cards in a place and time of the customer’s choice.

Postbank developed a new and attractive deposit product – Structured Deposit INDEX to meet consumer demand for investment options with higher yields. Deposit INDEX is a 36 or 60 months deposit in EUR with guaranteed principle, minimum base interest rate, and the option for additional profitability – a bonus interest rate. The bonus rate is tied to the performance of the STOXX Europe 600 Health Care. It is part of the German stock exchange group (Deutsche Boerse Group) and is one of the indicators for the performance of the so-called super sectors in the European economy. The index reflects the performance of key companies in the healthcare sector. The Bank presented its customers and partners the new Structured Deposit INDEX at a stylish event in May.



Postbank entered into partnership with Booking.com, the world leader in providing accommodation, as all holders of the credit cards Mastercard and Visa by Postbank received an additional 5% discount for each booking in Bulgaria or abroad made via Booking.com through the Bank's website.

Last year, Postbank witnessed increased interest in the purchase of real properties in Bulgaria by Bulgarians living abroad, as it registered a significant increase of 55% on an annual basis of their inquiries. The Bank offered a convenient solution to these customers with the housing loan At Home, which was developed with the Bulgarians abroad in mind. The maximum amount of the At Home loan is up to BGN 500,000 and the repayment period is up to 25 years. The loan has attractive interest rate and is offered to Bulgarian citizens who have had a permanent employment contract in the EU, the European Economic Area and Switzerland for at least a year.

In mid-August 2017, Postbank presented a new version with a new design of its modern mobile banking application m-Postbank.

As a modern bank, that respects the protection of the environment and cares for its customers, Postbank is among the first on the Bulgarian market, which introduced digital signing of documents in its entire branch network. The new service of the financial institution offers even a more convenient and faster way to carry out payment operations and a higher level of security for its customers and their transactions. The additional security of customer identification is provided by the availability and storage of electronic signature specimen, which is compared to every subsequent signature of customers. Using a digital signature is an innovative way of confirming payment documents, which eliminates the need of putting a signature on paper and the respective document archiving.

## AWARDS:

- Deal of the Year Award by Forbes Business Awards for the successful finalization of the acquisition of Alpha Bank – Branch Bulgaria business;
- The Young Entrepreneur Award for a mentor company at the 20<sup>th</sup> International Fair of School Enterprises;
- Business award in the Quality category of the third Annual Successful Business Awards of the Confederation of Employers and Industrials in Bulgaria;
- *Manager* magazine's special award for the project Charger with a Heart in PR Prize 2017;
- Corporate PR Campaign Award in PR Prize 2017 for the campaign 25 Years Postbank, third place;
- Green Communications and Urban Environment Award in PR Prize 2017 for the Charger with a Heart campaign;
- First place in the Greenest Bank category in the seventh annual Greenest Companies in Bulgaria 2017 Awards of *b2b Media*;
- Special recognition by Begach sport club for participating with the highest number of teams in the Campaign with 500+ Employees category in Postbank Business Run 2017;
- Dynamics of Development Award in the annual awards of the Association Bank of the Year;
- Business Development 2016 Award by Western Union for Postbank's high quality of the services, reported transaction growth and increase in market share and agents network;

- First place in the New Service category of BAAwards 2017 for the More Today campaign;
- Gold Effie for one of the Bank's latest financial solutions –More Today credit programme, which enables customers to increase their disposable income by up to 50% and by more in certain cases;
- Bronze Effie award for the innovative credit card Mastercard Cash, which enables cardholders to withdraw cash interest-free;
- Postbank was named Most Effective Brand according to Effie Index Bulgaria 2017;
- Mrs. Petia Dimitrova, Chief Executive Officer and Chairperson of the Management Board of Postbank, won the Banker of the Year 2017 Award in the 24th annual awards, organized by *Banker Weekly*;
- High recognition from *Global Custodian* magazine – leading magazine on capital markets, asset management and investment activities. The Bank was named Top Custodian in Bulgaria for the sixth consecutive year;
- Green Heart Award in the Green Planet category for the Bank's Heroes in Green project in the fourth Golden Heart Annual Charity and Corporate Social Responsibility Awards of *Business Lady* magazine.





## FINANCIAL REVIEW

### FINANCIAL HIGHLIGHTS

	2017	2016
<b>BALANCE SHEET</b> (All figures in '000 BGN)		
Net Loans and Advances to customers	4,828,632	4,214,400
Core Client Deposits	6,080,217	5,524,333
Shareholders' Equity	1,236,587	1,147,985
<b>Total Assets</b>	<b>7,420,982</b>	<b>6,818,262</b>
<b>PROFIT AND LOSS STATEMENT</b> (All figures in '000 BGN)		
Net Interest Income	284,202	273,515
Net Fee and Commissions Income	80,320	70,095
Net trading Loss/Gain	5,445	11,678
Other Operating Income	1,205	11,395
<b>Total Operating Income</b>	<b>371,172</b>	<b>366,683</b>
<b>Total Operating Expense</b>	<b>131,635</b>	<b>147,327</b>
Deposit Insurance Fund	-18,774	-15,572
Provisions for Impairment	-69,663	-69,755
Profit Before Tax	151,100	134,029
Income Tax	14,835	14,459
<b>Profit After Tax</b>	<b>136,265</b>	<b>119,570</b>
<b>KEY FINANCIAL RATIOS</b>		
<b>Total Capital Adequacy Ratio</b>	<b>21.73%</b>	<b>23.35%</b>
<b>Net Interest Margin</b>	<b>4.05%</b>	<b>4.20%</b>
<b>ROA (after tax)</b>	<b>1.94%</b>	<b>1.83%</b>
<b>ROE (after tax)</b>	<b>11.25%</b>	<b>11.22%</b>
<b>Earnings per Share</b>	<b>0.3</b>	<b>0.26</b>
<b>Total funding</b>	<b>6,120</b>	<b>5,624</b>
<b>Fees &amp; Commissions/OPEX</b>	<b>61%</b>	<b>48%</b>
<b>Provisions/Loans</b>	<b>1.44%</b>	<b>1.66%</b>
<b>Provisions/Operating Income</b>	<b>19%</b>	<b>19%</b>
<b>Cost/Income Ratio</b>	<b>35.50%</b>	<b>40.20%</b>
<b>Net Loans/Deposits Ratio</b>	<b>79</b>	<b>76</b>

### World Economy

The global economy showed the strongest signs of recovery in the post-crisis period. Real growth in 2017 stood at 3.7%, boosted by investments and trade. The recovery was synchronized across all major regions and economies, which makes the short-term outlook even brighter – global GDP growth is expected to be close to 4% in the next two years.

Similarly, the European economy had a very strong year. Although the real GDP growth of 2.4% might not seem impressive, it was the highest in the last 10 years and above the potential growth rate. The unemployment rate continued falling and inflation remained subdued. Their levels will continue showing their positive effects in the next years. However, there are other factors that will pull the economy in the opposite direction such as the shortage of labour supply in some economies, as well as the negative outlook of the global trade and financial conditions. In the next year, monetary stimuli will be gradually withdrawn and the money market rates are expected to start rising again, which is expected to put a further pressure on the economy. Real growth rate is expected to deflate in the next two years but will remain above the 2% mark.

### Economic Situation in Bulgaria

	2015	2016	2017
GDP growth (%)	3.6	3.9	3.6
Inflation (%)	-0.4	0.1	2.8
Unemployment (%)	10.0	8.0	7.1
GDP per capita (leva)	12 339	13 206	13 939

The macroeconomic situation in Bulgaria remained robust with real GDP growth of 3.6%. It was lower than in 2016 because of the weaker growth of exports but was compensated to a large extent by consumption and investments. In real terms, they rose by 4.5% and 3.8% respectively – the highest level since the crisis, reflecting the rise of disposable income and the surge in construction and large infrastructure projects. Real growth of imports was 7.2% in 2017 due to the rising prices of oil and higher demand for raw materials, fuelling the expanding manufacturing industry.

Consumer price index jumped by 2.8% in 2017 due to the higher prices of food, energy and services following several years of negative or low inflation. While the latter were part of a global trend, the former were largely a consequence of the tight labour market. The economy is slowly heading toward full employment. According to the Employment Agency, the unemployment rate has fallen by almost 3 pp since 2015 to 7.1% - the lowest level in the last 10 years. At the same time, there are only limited reserves for further expansion of workforce because of the worsening demographics and the record-high participation rate in labour force. The shortage of labour was already acute in some areas and sectors of the economy and this might negatively affect companies' future investment plans. In the meantime, salary levels continued rising – by nearly 11% in 2017 alone.

The fiscal position of the government remained solid. The state posted a budget surplus for the second consecutive year and although it was lower than in 2016 it was still significant – BGN 845 million (0.9% of GDP). Like in the previous year, the surplus resulted from a combination of higher revenues and lower capital expenditure.

In 2017, all three major credit rating agencies upgraded the credit rating of the country by one grade. The rating of Bulgaria, according to Fitch, stood at BBB (long-term rating in foreign and local currency, with stable outlook), according to Moody's – at Baa2 (both in local and foreign currency, with stable outlook) and according to S&P – at BBB- (again in local and foreign currency, with stable outlook).



## Bulgarian Banking System

	2015	2016	2017
Loans to GDP	61%	58%	57%
Deposits to GDP	78%	79%	79%
Loans to Deposits	78%	73%	72%

The Bulgarian banking system had another successful year but the intense competition among banks had a negative effect on the rates of new loans and old volumes. As a result, interest income decreased by BGN 273 million (8% YoY) to BGN 3 billion, which could not be compensated by lower interest expenses. Interest expenses shrank by BGN 143 million (28% YoY) to BGN 368 million, which leaves little room for further savings. The rising deposit volumes were also another obstacle for a further reduction of banks' interest expenses – total deposit volume rose by nearly 6% YoY to BGN 78.4 billion, with deposits from non-financial companies up by a double-digit rate (13%).

Banks managed to cushion the impact on their profits through higher fees (an 8% increase YoY), cost reduction (-1.2% YoY) and lower provisioning charges (-6.3% YoY). Net profit in 2017 was BGN 1.26 billion, nominally 7% lower than the previous year but it should be born in mind that 2016 was marked by one-off gains. Efficiency ratios deteriorated slightly but were still at acceptable levels – RoE was 9.5% and the cost-income ratio stood at 46.5%.

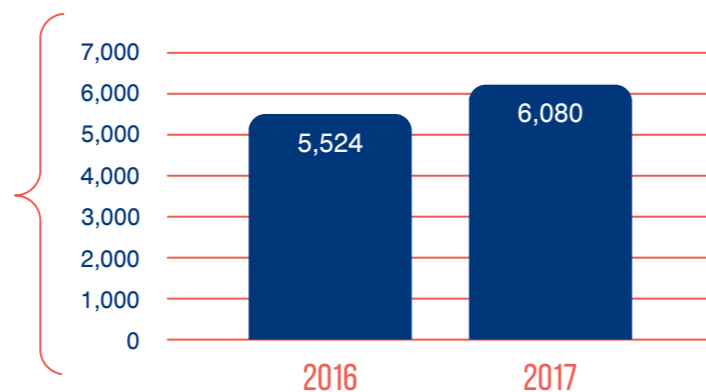
The falling income was a cause of concern for banks which were trying to overcome it with larger volumes, utilizing at least part of their excess liquidity. The new loans delta picked up significantly last year – total loans grew by BGN 826 million (3% YoY) to BGN 56.1 billion. Loans to companies rose by 1.1% to BGN 36.3 billion, while consumer loans were up by 5.5% to BGN 9.15 billion. Mortgage lending was at the forefront, with loans rising by 7.8% YoY to BGN 9.46 billion, fuelled by the renewed interest in the real estate market.

The clearing of the loan portfolios from non-performing exposures was progressing at a steady pace – NPE ratio fell by 3.5 pp YoY to 14.8%, while coverage remained stable at 53%. The volume of non-performing exposures overdue more than one year dropped by nearly 20% (BGN 1.2 billion) in 2017 mostly because of write-offs and portfolio sales.

The stability of the system was ensured by solid liquidity and capital adequacy ratios. Banks liquidity ratio stood at the respectable 39%, with banks holding nearly BGN 33 billion liquid assets. The capital adequacy ratio remained almost unchanged at 22.1% despite record-high dividend payments by major banks.

### Postbank Deposits and Liquidity

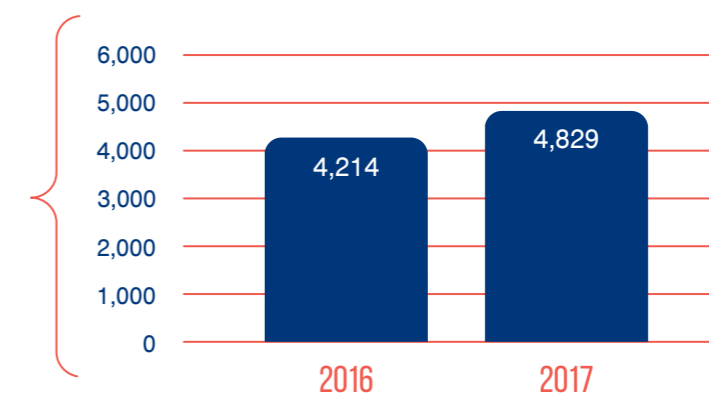
CLIENT DEPOSITS  
(million BGN)



In 2017, total deposits rose by BGN 556 million (10.1% YoY) to BGN 6.080 billion. The rebalancing of the deposit structure continued – deposits of corporate customers increased by BGN 337 million (31% YoY) to BGN 1.430 billion, while retail deposits (including small businesses) grew by BGN 219 million (5% YoY) to BGN 4.650 billion. Corporate deposits already accounted for 24% of all client deposits, up from 20% a year earlier. Liquidity ratio remained robust at 39% (a 1 pp decrease, compared to December 2016), with liquid assets being in excess of BGN 2.4 billion. The Bank is fully self-funded as client deposits accounted for more than 99% of all attracted funds.

### Net Loans

NET LOANS  
(million BGN)

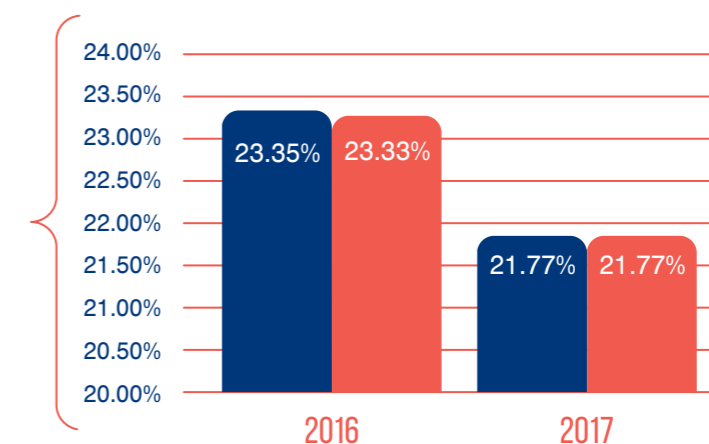


Net loans increased by BGN 614 million (14.6% YoY) to BGN 4.829 billion – a hike much larger than the market average, which enabled the Bank to improve its market share and position. The delta of the gross lending portfolio was lower in nominal terms – BGN 571 million to BGN 5.198 billion, as the Bank continued writing off non-performing exposures as part of its strategy for reducing the NPE ratio.

The largest share of the new loans' delta came from the corporate portfolio – loans to corporate clients rose by BGN 457 million to BGN 2.152 billion. Mortgage and consumer loans rose by about 5% each (by BGN 85 million and BGN 30 million respectively) to BGN 1.656 billion and BGN 678 million respectively. The volume of loans to small businesses remained virtually unchanged, as the new lending delta was matched by an equal volume of write-offs.

### Capital Adequacy

CAD AND TIER I RATIO

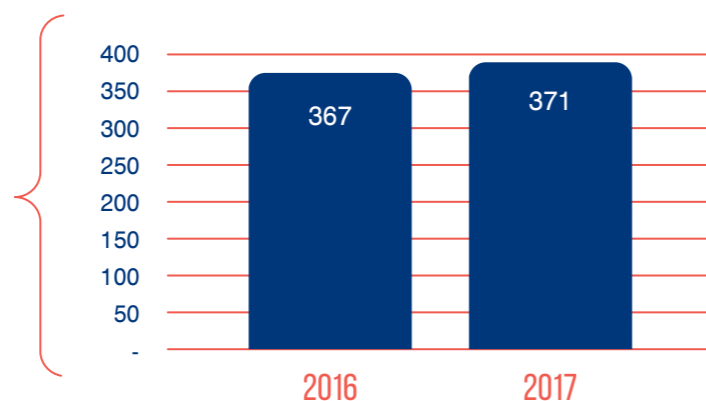


The capital adequacy ratio stood at 21.77% as at end-2017, which is more than 8 pps above the regulatory requirements. The capital adequacy ratio decreased by 158 bps in 2017 as the risk-weighted assets rose faster than the capital base. Risk-weighted assets rose by 11% to BGN 4.577 billion, most of which coming from the growing lending portfolio. The Bank's capital base rose by BGN 36.6 million to BGN 996 million, influenced by two major factors. In 2017, Postbank distributed BGN 58.7 million, or around half of 2016's net profit, as dividend, with the rest added to the reserves. The second factor was the application of the provisions of Commission Delegated Regulation (EU) No 183/2014, which reduced the capital base by BGN 17.4 million.



## Operating Income

OPERATING INCOME  
(million BGN)



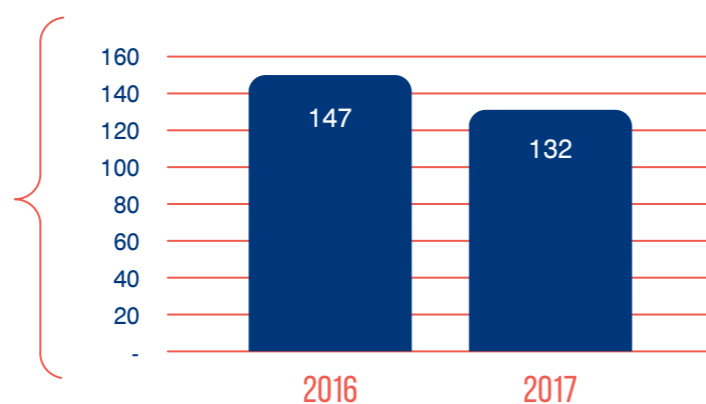
The Bank's total operating income rose by 1.2% in 2017 to BGN 371 million – a notable achievement because of the one-off gains of nearly BGN 10 million posted in 2016, which had to be compensated in the following year. Positively, both net interest income and net fee and commission income increased by over BGN 10 million in line with the expansion of the Bank's regular business activities.

Net interest income went up by 4% to BGN 284 million. Higher lending volumes helped the Bank overcome to a great extent the effect from the falling interest rates – interest income showed only a minimal decrease of 2% to BGN 298 million. This was more than compensated by lower interest expenses – despite the 10% increase in the deposit volume, they shrank by 56% to just BGN 14 million. The Bank's net interest margin stood at 4.05% at end-2017, brought down by the higher denominator (total assets rose by nearly 9%).

Net fee and commission income rose by double-digit rates for the second consecutive year – this time by 14.6% to BGN 80 million, with most of the increase coming from everyday banking operations such as money transfers and account maintenance. Net fee and commission income accounted for 61% of the Bank's operating expenses, registering an impressive 13 pp increase in 2017.

## Operating Expenses

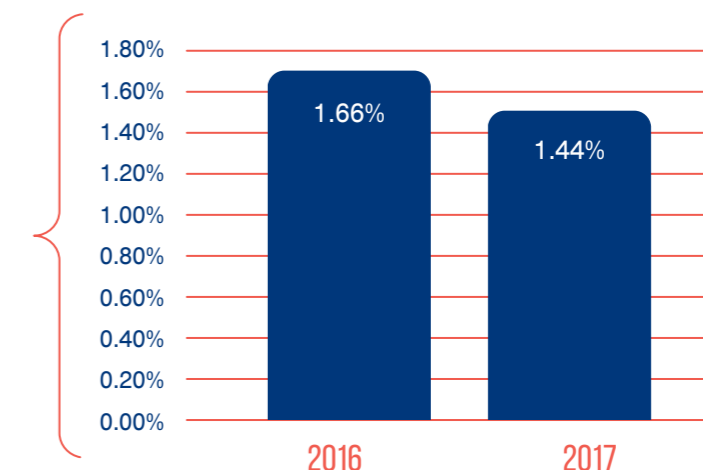
OPERATING EXPENSES  
(million BGN)



Costs returned to their normal level after the successful completion of the acquisition of Alpha Bank-Branch Bulgaria in 2016. The one-off costs for its integration were no longer present in 2017, while the rest were kept under control. The cost-income ratio fell by almost 5 pp to 35.5%, the lowest on record.

## Cost of Risk

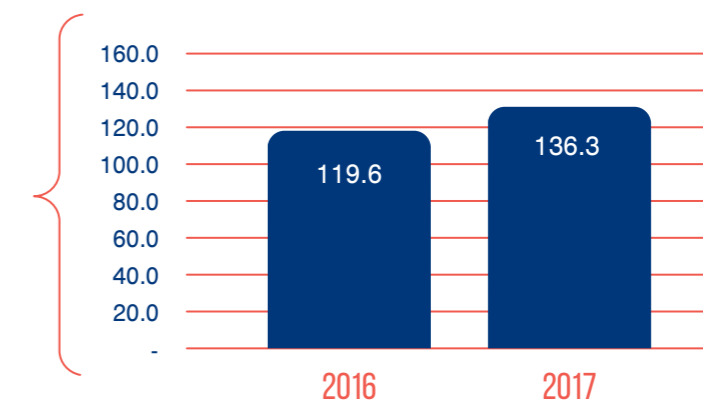
COST OF RISK



Cost of risk continued improving in 2017 – the ratio fell by another 22 bps to 1.44%. Nominally, the provisions for impairment remained at the same level as in the previous year – BGN 70 million but spread over a much larger base. Non-performing loans of slightly more than BGN 121 million were written off in 2017, which helped improve the ratio of the loans more than 90 days overdue by another 3 pp to 12.1%. The coverage ratio was 59% at the end of the year, 1 pp higher than the previous one.

## Net profit and Profitability

NET PROFIT  
(million BGN)



The normalization of the business activities in the past year helped reveal the true profit potential of the Bank. The organic expansion of the lending portfolio helped reverse the negative trend of the falling interest income and it was back on the rise in Q4 2017. At the same time, the deepening relationship with clients was important for the solid improvement of the net fee and commission income. All of the above, combined with the strict control over costs, pushed the Bank's net profit to new heights. 2017's net profit stood at BGN 136 million, or 14% higher than a year ago. Return on equity remained virtually the same – 11.25%, despite the higher equity. Return on assets was also better, increasing to 1.94%, compared to 1.83% in the previous year.



## BUSINESS OVERVIEW

### RETAIL BANKING SECTOR

#### BRANCH NETWORK

Following the successful merger with Alpha Bank-Branch Bulgaria in 2016, the Bank continued optimizing its branch network in 2017, mainly by relocation and reconstruction in order branches to be positioned on places offering better business potential and foot traffic. Postbank currently possesses a very well-developed, positioned and accessible branch network. The Bank's 174 branches in 80 cities (55 locations in Sofia and 119 outside the capital) cover more than 75% of the population in the country.

During the year, the Bank continued focusing on building the relationship with customer by improving the quality of customer service and the cross-sales ratio of the Bank through various initiatives such as conducting mystery shopping surveys, sustaining high level of insurance product penetration in the new lending production, thus providing adequate level of service to each individual client through customer segmentation.

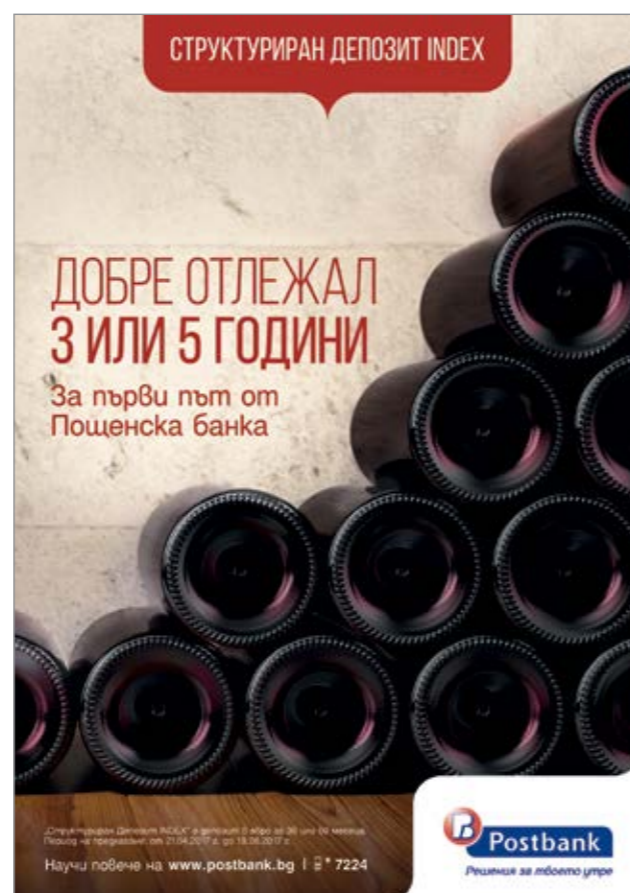
Digitalization of the branch network during the year was one of the Bank's main priorities. Regarding digital transformation, several projects were implemented and planned further. Teller cash recyclers (TCR) were installed, E-signing was introduced and successfully working, WiFi and digital signage (screens and tablets) were incorporated in the Bank's branches.

#### PERSONAL BANKING AND DEPOSITS

As a segment, personal banking defines servicing of individual customers with higher financial, social and professional status such as managers of companies, entrepreneurs, freelancers, etc. In 2017, the major step in the sphere was the introduction of new investment products with bigger added value for customers and of new customer service standards.

Ninety personal banking experts a year on the average were in charge of servicing customers in the segment in 2017. The contribution of the specialized Personal Banking centres to the total sales of the segment grew to 34%. We started a new innovative approach of holding meetings with existing and new affluent customers in the respective centres via a digital financial planning tool.

The personal banking segment achieved significant efficiency in sales of credit products, reaching a hike of 36% in consumer lending, of 75% in mortgage lending and of 28% in credit card sales, while the contribution of the segment to the total sales to individuals levelled to 19% at the end of the year.



Regarding individual deposits, the Bank registered a net increase of EUR 59 million in 2017. In the strongly competitive and dynamic market conditions, the Bank offered its customers two new structured products – **Deposit Index** and **Everest Investment-Insurance Product**, whose characteristics provide flexible investment alternatives and an option for a higher yield over time. The list of classic deposit and saving products was also updated with two new products – **Deposit 30** and **Prestige Savings Account**, which provided various benefits to loyal customers.

In 2017, we successfully launched a new partnership with NN Pension Insurance, which provides our personal banking experts with more options for offering comprehensive financial solutions to customers in the segment.

#### SMALL BUSINESS BANKING

2017 was marked by a continuous decrease in loan interest rates and by strong competition. At the same time, loan demand by micro-, small- and medium-sized enterprises went up. Thus, despite the strong competition, higher demand led to a 32% increase of the new business, generated by Postbank. Also, we reported an increase in our market share by attracting new clients (nearly 65% of all borrowers). Customers' loyalty to the Bank is getting stronger, which is confirmed by the 36% growth in the deposit base last year.

In 2017, the main objective of Postbank's Small Business Banking Division was to strengthen the Bank's leading role in small business lending. Postbank paid special attention to micro and small enterprises, which opened new jobs and added value to the economy.

Our team works closely with our customers to fully understand the opportunities, challenges and problems faced by small businesses. The Bank makes constant efforts to get to know our clients, their business, difficulties and prospects to maintain our long-term relationship based on trust and understanding. This is why, Postbank aimed not only at providing the best credit solutions but, above all, at being a trusted partner for the years to come.

The Bank offers a wide range of banking services to its clients such as cash management, payments, documentary business, payroll support, POS devices, debit cards, etc. The wide range of lending and non-lending products helps customers be more efficient, increase their competitiveness and improve their market position.

Postbank proved to be a trusted partner of the small and medium business with the SME Initiative Programme for Bulgaria. The programme is a joint initiative of the European Commission, the European Investment Fund and the European Investment Bank. In 2017, Postbank reported a significant expansion in lending under this programme. As a result, we disbursed almost 70% of the agreed funding limit by the end of the year.





In 2017, we continued successfully offering specialized lending products supporting farmers, doctors, dentists, pharmacists and medical clinics. Also, we posted stable results regarding funding of projects under various European programmes. Besides, we continued working under the agreement concluded with the National Guarantee Fund, that ensures financial support to agricultural producers.

By opening new specialized Small Business Banking centres, Postbank further developed its service quality improvement strategy, launched in 2014. At the end of 2017, there were 22 operating centres, including the largest one in Sofia. The share of the new business attracted by them accounted for over 70% of the new production. Another Small Business Banking centre is going to be opened in Sofia in 2018 but we already have a presence in all major economic cities in the country. We consider the ongoing third-year increase in the performance per expert as the main asset and result of the strategy. In addition, on top of the active lending through the branch network, the Bank retained a sustainable share of alternative sales channels in new production in 2017.

The Bank launched numerous marketing campaigns, organized meetings with clients in the country and initiated sales initiatives and a series of open doors days to promote its new credit products. Furthermore, the traditional series of conferences, Postbank Meets Business, were successfully carried out in numerous cities in the country.

The Bank's 2018 priority will be to develop its business with medium-sized enterprises in order to increase their stability and boost their growth. In 2018, Postbank will focus its efforts on providing better and new services to farmers, and client-tailored offers to companies applying under European operational programmes. Furthermore, the Bank's goal is to meet the growing loan demand, thus widening its client base.

Postbank is also committed to providing numerous training opportunities to its employees in order to enhance their professional knowledge and keep them motivated in its strive to offer higher-quality banking to all of its customers.

## INDIVIDUAL BANKING AND ALTERNATIVE CHANNELS

### Mortgage lending

In 2017, Postbank's strategic focus in the mortgage business segment remained sustainable business growth through improving customer satisfaction and strengthening the Bank's position as a preferred partner of its clients. Throughout the year, the mortgage loan market in Bulgaria continued its growth as a result of a continuous decline in interest rates, greater demand and the rising prices of real estate in larger cities. Despite the exceptionally dynamic market environment, we managed to reinforce our position among the leaders and continued setting trends in mortgage lending.

In terms of mortgage market share, Postbank was ranked among the top three banks and was maintaining a stable portfolio mix of new and existing lending customers. The recent years' trend of growth was successfully extended despite the dynamic market environment and strong competition. According to BNB official statistics for 2017, Postbank is the most dynamically developing bank in the mortgage lending segment among the top five credit institutions in the country. The total amount of the loan portfolio of the Bank increased by BGN 114 million and reached BGN 1.486 billion as of 31 December 2017, compared to BGN 1.372 billion a year earlier. This growth is due to the excellent business results in 2017 when the total volume of new housing loans increased by 50%, compared to the previous year.

The success resulted from the Bank's ongoing strategy for developing innovative and customer-oriented products, for focusing on financial added-value solutions, as well as for providing excellent service.

In 2017, the Bank continued its policy of investing in the above-mentioned key pillars. Throughout the year, we managed to expand our specialized network of Mortgage Lending centres by adding 10 new locations, thus reaching the total number of 24 centres across the country. In the specialized centres, our clients receive high quality services from specialists with extremely high expertise in the field of housing loans and competent assistance not only in terms of financial aspects, but also in terms of the choice of property and the required documents for a loan. The volume of newly-disbursed mortgage loans in the specialized Mortgage Lending centres reached 50% of the total disbursed amount of mortgage loans for 2017, increasing by 45%, compared to the previous year.

Interest rates on new mortgage loans continued following a downward trend and reached historical lows in 2017 in the conditions of strong competition among banks. In this challenging environment, Postbank marked a successful year in the mortgage business segment, retained its position among the leaders in the sector and achieved significant growth for a new mortgage business.

### Consumer lending

In 2017, the consumer lending market in Bulgaria showed continuous trend of growth and revival in demand. The main contributing factors for the trend included the improved economic environment, the rising household wages and the low interest rates on loans. Consumer behaviour was characterized by increased trust in banks, sense of confidence regarding financial planning and demand for products and added-value services. This is proved by the reports of Bulgarian National Bank showing a 23% hike in new consumer lending volumes in 2017, compared to 2016.

Postbank realized a substantial increment in 2017 concerning the consumer lending business, firmly indicated by the achieved results. The Bank managed to achieve a 50% increase in the new volumes of consumer loans, compared to 2016. Significant contribution to the positive results came from the innovative products and services, implemented by the Bank throughout the year and the development of alternative channels for financing, as well as the implementation of new ones.

In March 2017, the Bank launched the exceptionally



successful loan programme, More Today. It was specially designed to provide our clients with the opportunity to increase their disposable income through a solution for optimization of monthly expenses. More Today loan programme was developed in accordance with consumer demand. Its unique feature is the product scope, which shifts from the Bank's to the customers' perspective and addresses customers' actual needs. The programme enables customers to optimize their loan obligations and save time. Clients can consolidate their existing obligations on consumer loans, credit cards, overdrafts and other debts in one new loan, and have the option to withdraw additional cash in accordance to their individual needs. The programme was supported by three marketing campaigns resulting in substantial increase in the submitted applications for debt consolidation, which reached 40% of the total generated new business. In addition, the Bank developed a dedicated website of the More Today loan programme – [www.povechednes.bg](http://www.povechednes.bg). A specialized calculator on the website assists customers to easily estimate the increment of their disposal income by refinancing their debts through a new consumer loan from Postbank. Customers can directly submit requests for individual offers and expert advice by filling in a short online form.

Considering the need of easy access to financing, the Bank expanded its network by creating a new sales channel – the specialized consumer lending centres Momento. They were opened in some of the largest shopping centres and in other key locations in Sofia. At the centres, the Bank offers express service which gives customers the opportunity to receive up to BGN 40,000 within 40 minutes. The key locations, the attractive financing conditions and the high-quality service turned the newly-opened centres into a very successful sales channel.

Customers can apply for consumer loans not only in the specialized centres and the branch network, but also after consultation with a mobile bank expert or by submitting an online credit application via the Bank's website. Thanks to its innovative products and sales channels, Postbank strengthened its position as a leader in the area of consumer lending and provided high-quality service to its customers.

## Insurance business

In 2017, we achieved a significant growth in insurance business income. The increase of the generated income stood at 44%, compared to 2016, the highest growth being in insurances related to credit cards, mortgage loans and stand-alone insurances.

The volume of credit card insurance went up by 73%, compared to 2016, an increase we owe to the extended insurance coverage and the additional risks included, as well as the replacement of American Express with Mastercard credit cards. The step gave us the opportunity to provide the insurance coverage advantages to non-insured customers and to upgrade the coverage for the already insured ones.

As for the mortgage loan insurances, we achieved a 67% increase, compared to 2016, which we ascribe to the additional coverage included and our consistent policy of providing options for payment protection in case of unfavourable events. Postbank managed to secure 82% of the new portfolio despite the severe competition on the market where fewer banks required a life insurance.

Stand-alone insurances increased by 45%, compared to 2016, showing that more and more customers acknowledged the value of the safety that insurance products provide.

At the end of the year, we added a new advantage for our customers interested in auto insurances. The new option allows for the insurance premium to be paid via a Postbank's credit card and in up to 12 interest-free instalments. The additional benefit was that customers could use a discount, provided by the insurance company, for a one-off payment plus an up to 10% discount as a Postbank's customer.

The achieved income hike and launched innovations proved the success of our strategy for improving cross-sales and the development of value-added products.

## Package programmes

We maintained a significant increase in the generated income in the third year since the successful launch of the programmes for comprehensive banking service. In 2017, it stood at 86%, compared to 2016. The income from the My Family package programme increased by 136%, compared to 2016, maintaining the trend of having the majority of them (88%) loan-related. The figures indicated that our strategy was successful and our well-bundled products and services were properly structured and well-accepted.

In March 2017, following our strategy for a cross-sales increase and development of value-added products, we launched the innovative payroll account Super @ccount – “the only one that pays you back”. The account encourages digital payments and improves customers' loyalty and satisfaction due to its unique characteristics and gamification features. Sales went up by 33% more than expected by end-2017.

The cross-sales index increased from 2.24 to 2.45 as of December 2017 as a result of a well-managed strategy for cross-sales and all the activities for their improvement.



## Cards business

In 2017, Postbank focused on the quality and uniqueness of the products and services it offered to customers. Credit card holders had the opportunity to take advantage of many attractive and money-saving shopping offers. We continued stimulating card payments through extremely successful promotional campaigns, carried out in partnership with vendors such as Technopolis, Praktiker, IKEA, EKO and other big retailers.

We continued developing the My Rewards loyalty programme for bank card customers. Our loyal customers received generous monetary rewards totalling over BGN 1.7 million in 2017 only.

At the beginning of 2017, Postbank launched three new products – Mastercard World Premium, Visa Premium, Mastercard Cash contactless credit cards, as well as Mastercard Prepaid card.

In May 2017, Postbank successfully completed the conversion of the entire portfolio of American Express credit cards, which led to even larger credit card turnover and further strengthened the Bank's



position as a leader on the credit and debit card market.

All implemented initiatives led to a 21% increase in the total turnover of credit cards and a 59% uptake in the number of new credit cards in 2017, compared to 2016. The number of debit cards increased by 4% and the turnover of debit cards increased by 16% in the same period.

We managed to optimize our merchant network as well and witnessed an increase in the payments made via Postbank's POS devices – 18% compared to 2016.

In 2017, the fleet of ATMs went up by 11% and we introduced the cash depositing functionality, as well as Bulgaria's first Western Union service of ATM cash withdrawal.

## Digital banking

In 2017, the development in the area of digital channels yielded excellent results, achieving an increase in all key performance indicators. We managed to reach a 60% hike in new internet banking (e-Postbank) registrations, compared to 2016 (37 thousand, compared to 23 thousand), as a result of all the efforts in improving the overall digital penetration in the existing portfolio and regarding new customers. In terms of transactional business, the volume of transactions made via e-Postbank was 43% larger compared to the previous year (BGN 20 billion, compared to BGN 14 billion).

The results of the application were more than promising more than a year after the official launch of mobile banking (m-Postbank). The average monthly transaction amount went up by 206%, compared to 2016 (BGN 6.1 million, compared to BGN 2 million). The number of transactions increased by 133% from the previous year (18.6 thousand, compared to 8 thousand). The constant development of m-Postbank by adding more and more functionalities resulted in a 72% increase in the active users as of December 2017, compared to the same month in 2016 (19 thousand, compared to 11 thousand), while the total downloads reached 32 thousand as at end-2017.

The development in the online business was also very positive, as in all three business lines the Bank reported growth in 2017, compared to 2016: +42% in disbursed consumer loans (EUR 3.6 million, compared to EUR 2.5 million), +18% in approved credit cards and +91% in disbursed mortgage loans (EUR 730 thousand, compared to EUR 380 thousand).

In 2017, the Bank also managed to implement a couple of projects in the digital banking area. Some of the major projects were: additional security measures for e-Postbank via OTP, online registration for e-Postbank and an option of opening an online account via e-Postbank.

## WHOLESALE BANKING SECTOR

The Corporate Banking and Capital Markets Sector registered record-breaking results in terms of many market indicators in 2017:

- The Bank posted the largest growth in corporate lending among all others banks in the country and reached a record-high volume of corporate loan portfolio in its 27-year history. The successful results of the proactive policy of attracting and servicing corporate clients led to a rise in the Bank's lucrative assets (loan portfolio), deposits and unit's profit.
- Corporate transaction banking and factoring services also saw record-breaking hike in their volume. The factoring services of Postbank were the leader in terms of volume in Bulgaria for the fifth consecutive year.

- In the last seven years from 2011 to 2017 inclusive, Postbank has won best custodian bank awards from prestigious world magazines such as *Global Custodian* and *Global Investor*.

## Corporate Banking

Postbank's Corporate Banking Division services companies with annual sales turnover of over BGN 3 million. The division incorporates the departments in charge of big- and medium-sized corporate clients and project financing. They provide specialized business solutions directly from the Head Office of the Bank or through our well-developed network of nine corporate business centres across the country.

In 2017, a new unit was set up within the structure of the Corporate Banking Division – Greek/International Corporate Clients Desk. The division is specialized in financing international corporate clients operating in Bulgaria, as well as their subsidiaries in the country.

In 2017, the Corporate Banking Division managed to distribute over EUR 430 million in new loans, EUR 240 million of which was disbursed by the Large Corporate Clients Department to leading Bulgarian companies in different sectors of the economy and for a variety of projects, including financing for the working capital needed in their activities.

EUR 150 million was granted to support medium-sized companies. Loans were granted to many clients under the joint programmes and guarantee mechanisms of NGF, BDB, EIF, BEIA, etc., with the assistance of colleagues from the European Programmes Section in 2017.

In its first year of operations the Project Financing Department granted over EUR 40 million loans. The experts of the department participated in some of the emblematic project financing deals in Bulgaria.

Thanks to all of these initiatives, as well as the high professionalism, motivation and proactive actions of its employees the Corporate Banking Division significantly increased its pre-provision net profit in 2017 and set even more ambitious targets for 2018.

## Corporate Transaction Banking

In 2017, the Corporate Transaction Banking Department was restructured into a division. Its business model focused on the increase in the income from fees and commissions, cost optimization, efficiency and successful pricing strategies, which resulted in significant improvement of the profit indicators of the unit. Thanks to the long-term balanced strategy for deposit structure optimization and cost-of-funds reduction, the Corporate Transaction Banking Division generated significant growth for a consecutive year not only in its profit, but also in the current accounts and term deposit balances.

In 2017, the Deposits and Transaction Customers Department expanded its portfolio by over 150 new clients, some of which state-owned companies. Combining an individual approach and high-quality service and good prices, the department became a leader in servicing corporate customers. The department works closely with the other divisions and departments in the Corporate Banking and Capital Markets Sector, as well as the branch network and the other units of the Bank.

The Digital Banking and Service Quality Department is responsible for the high-quality servicing of corporate clients and the development of digital services. In 2017, the department initiated and managed a number of projects related to the improvement of the daily service for companies.

The Factoring Department, traditionally continued scoring significant success. Postbank kept its leading position on the market for the fifth consecutive year, being a number one factor in Bulgaria with a 41% market share of the total factoring business in the country.



## Capital Markets

In 2017, Postbank maintained its leading role on the local capital market. The Bank extended the range of its financial products and services, increased its client base and strengthened its position as preferred partner for FX and security trading of local and foreign clients.

## Asset and Liability Management

The prudent liquidity management of the Bank, the maintenance of solid liquidity buffers and liquidity ratios above the regulatory thresholds remained Postbank's key role in 2017.

In 2017, Asset and Liability Management Department successfully optimized the structure of the liquidity buffers and improved the profitability of the Bank. The unit continued successfully managing the Bank's overall risk exposures arising from its balance sheet structure.

The utilization of the accumulated liquidity in extending new loans to clients remained one of the Bank's priorities in 2017.

## Treasury Sales

In 2017, Postbank continued strengthening its leading positions both in FX operations and offering a variety of financial products.

The volume of the attracted deposits from institutional customers went up by 25%, increasing the Bank's market share in this segment, while at the same time marking a significant decrease in the cost of attracted funds.

In 2017, the Treasury Sales Department expanded the offering of structured products not only to large institutional clients, but also to individual clients.

The Brokerage Section contributed to the Bank's stable position as one of the most active investment intermediaries on the Bulgarian Stock Exchange (BSE).

The Bank continued occupying leading positions in the number of traded deals on the BSE amongst commercial banks in 2017. Postbank is privileged to have the largest number of clients using e-commerce for BSE transactions. In addition, customers of the Brokerage Section have access to financial instruments on foreign stock markets in 28 countries in Europe, Australia, Asia and North America.

## Trading and Investment Banking

Postbank remained among the major players on the bond market for a consecutive year. The Trading and Investment Banking Department actively managed the Bank's fixed income portfolio, seizing substantial trading gains and capitalizing interest income.

In 2017, the Bank managed to further strengthen flows from foreign government and corporate bonds, leveraging on trading lines and contacts with leading international banks and brokers.

The Bank's fixed income portfolio increased by 3%, taking advantage of the market conditions of "ultra-low" interest rates and excess liquidity.

## Custody

In 2017, Postbank preserved its leading position as a depository bank of local mutual funds and remained

among the leading banks offering a full suite of security services in line with the international standards.

For 13 years, Postbank has been offering safekeeping of all types of local and foreign securities with access to more than 100 international markets. The Bank remained the exclusive custodian and security service agent of the biggest European central securities depository Clearstream Banking – Luxembourg.

Postbank has been named the best custodian bank by the reputable *Global Custodian* and *Global Investor* magazines in the last seven years.

## Private Banking and Mutual Funds

In 2017, Postbank improved its presence in the field of private banking and mutual funds management, providing selected banking and investment products and services in order to respond to the dynamic financial and business conditions.

Its successful internal model of structured access to a leading financial centre – Luxembourg – and its comprehensive wealth management services, offered in partnership with Eurobank Private Bank Luxembourg S.A., provided the Bank with a competitive advantage in this segment.

2017 was marked by a growing demand for mutual funds as an alternative form of savings amid the historically low deposit interest rates. The Private Banking and Mutual Funds Department increased sales of mutual funds by 43% (YoY).

In 2017, the unit extended its list of mutual funds by launching three new funds – Global Bond, Global Equities and Balanced Blend US in USD (upgraded product SpestInvest – a combination of a term deposit and a mutual fund).



## GOVERNANCE STRUCTURE AND RISK MANAGEMENT

### MANAGEMENT AND REPRESENTATIVE BODIES

The Bank has three management and representative bodies: the General Shareholders' Meeting, the Supervisory Board and the Management Board. Their duties and authorities derive from the Commerce Act, the Bank's Statute and each respective board Terms of Reference. Shareholders, as the owners of the Bank's business and assets, exercise their rights at the General Shareholder's Meeting. All shareholders have the right to participate either in person or by a proxy. The General Shareholder's Meeting is the only corporate body entitled to decide on issues such as amendments to the Statutes of the Bank, capital increase and decrease, appointment of the members of the Supervisory Board, appointment of external auditors, approval of the Annual Financial Statements, it resolves on payment of dividends, releases from liability the members of the boards, etc. The General Meeting is in quorum and meets validly if at the same are present and/or represented shareholders holding more than half of the total number of the shares of the Bank. Lower quorum is required in repeat General Meetings if initial quorum is not reached.

Resolutions are reached by simple majority. Exceptionally, with regard to certain significant decisions such as amendment and supplement of the Bank's Statute, decisions related to share capital, issuance of convertible bonds, etc., resolutions are reached by two-thirds majority. Decisions on the transformation of the Bank require positive vote of three-fourths of the represented number of shares. In case such qualified majority is required, resolutions are taken only if at the General Meeting are present and/or represented shareholders holding more than one half of the total number of the shares of the Bank.

The Regular General Meeting is held every year, within the first six months of the year. An Extraordinary General Meeting may be convened by the Management Board or by the Supervisory Board when they consider it necessary or when required by law.

The minutes of the General Meeting are signed by the Chairman, the Secretary of the General Meeting and by the vote tellers.

For each General Meeting, the Bank arranges for the detailed notice, including date, place, issues on the agenda and related papers to be available to shareholders at least 30 days before the meeting, including the proposed resolution on each issue.

According to their legitimate rights the shareholders are permanently in possession of adequate flow of information on the Bank's operations through various means and channels - annual and extraordinary shareholders' meetings, reports being submitted to them by the boards and their committees, statutory publications with the Commercial Register etc.

According to the applicable legislation the members of the boards are elected upon preliminary approval procedure before the Bulgarian National Bank which thoroughly examines their qualifications, professional experience, reliability and suitability for occupying the position.

#### Management Board

The Bank is managed and represented by Management Board, a permanent collective body, exercising its responsibilities under the control of the General Meeting of Shareholders and the Supervisory Board. The Management Board holds regular meetings and its foremost duty and responsibility is to manage the business in accordance with the best interest of the Bank's shareholders, customers and employees, to deliver sustainable growth in shareholder value and to safeguard the Bank's interest, to report and keep the Supervisory Board

informed on all significant matters regularly, promptly and comprehensively, to prepare the annual activity report and the annual financial statement and to submit them to the registered auditors and the Supervisory Board, as well as other functions and responsibilities provided by the law and the statutes.

The Management Board consists of 3 to 9 members, appointed by the Supervisory Board. The Management Board, with the approval of the Supervisory Board, assigns the management and representation of the Bank jointly to two or more of the Management Board members – executive directors.

As at December 31, 2017 the Management Board consisted of four members of whom, three executives and one non-executive. The membership and term of office of the Management Board are approved by the bank's Supervisory Board upon issuance of BNB preliminary approvals for appointment of Management Board members to the respective position on the Board.

- Mrs. Petia Dimitrova – Chairperson of the Management Board and Chief Executive Officer;
- Mr. Dimitar Shoumarov – Member of the Management Board, Executive Director and Chief Financial Officer;
- Mr. Asen Yagodin – Member of the Management Board and Executive Director;
- Mr. Jordan Souvandjiev – Member of the Management Board and Chief Risk Officer.

In terms of its representation, the Bank has established the position of a Procurator in addition to those of the Executive Directors. Mrs. Milena Vaneva – Head of Legal Division at the Bank, was appointed as Procurator in 2011 upon issuance of the BNB preliminary approval for her appointment as Procurator of the Bank. As such she represents the Bank always acting jointly with any of the Executive Directors of the Bank and by that condition she has the rights to perform all and any acts or transactions related to the carrying on of the business activities of the Bank, to represent the Bank, to authorize third parties to perform specific acts, as well as to dispose of and encumber real estate property of the Bank.

The Management Board holds regular monthly meetings. As per the Statute of the Bank, the Management Board hold meetings not less than once per quarter, or, if necessary, more often, given at least seven days written notice.

The Management Board is considered to be in quorum and meets validly when at least half of its members are present, either in person or represented by another member. Decisions are taken by simple majority, to the extent that the Statute or the law does not require a higher majority. Management Board meetings minutes are kept in a special book and signed by all the members present at the meeting and the Corporate Secretary of the Bank.

In carrying out its duties the Management Board is assisted by specialized committees, to whom it delegates some of its responsibilities, and from which it receives regular and ad-hoc reports. The main committees are:

#### Executive Committee

The Executive Committee has the responsibility for the day-to-day management of the Bank. It considers all issues pertaining to the current activities of the Bank and adopts decisions on them as to manage the implementation of the Bank's strategy.

#### Asset and Liability Committee

The Asset and Liability Committee is established in compliance with the requirements of Art.4 of Ordinance №11 of Bulgarian National Bank on Bank Liquidity Management and Supervision. The Asset and Liability Committee has primary responsibility for advising the Management Board on strategy for management of the Bank's assets and liabilities.



## Credit Committee

The Credit Committee of the Bank is set up in compliance with Art.4 of Ordinance № 9 of Bulgarian National Bank on the Evaluation and Classification of Risk Exposures of Banks and Allocation of Specific Provisions for Credit Risk. It has the responsibility to monitor, evaluate, classify and determine specific provisions for credit risk.

## Supervisory Board

The Supervisory Board performs overall control over business and financial activities of the Bank and also controls the conformity of the Bank's activity with the applicable law, the Statute and the resolutions of the General Meeting in the best interest of the Bank's shareholders, customers and employees. The Supervisory Board controls the organization and the management of the implementation of the resolutions of the General Meeting of Shareholders, appoints and revokes appointment of the members of the Management Board, approves certain major transactions and resolutions of the Management Board, verifies and approves the Annual Financial Statement, the annual report and the draft on distribution of profit and resolves to call the annual regular general shareholders' meeting, as well as other functions and responsibilities provided by the law and statutes.

The Supervisory Board is entitled to request at any time the Management Board to submit information, reports or draft decisions on any matter. It is also entitled to verify all documents, books and reports related to the business activities of the Bank.

As at December 31, 2017 the Supervisory Board consisted of five members. The membership and term of the Supervisory Board are approved by the Bank's General Meeting upon issuance of BNB preliminary approvals for appointment of Supervisory Board members to the respective position on the Board.

- Mr. Georgios Provopoulos – Chairman of the Supervisory Board;
- Mr. Theodoros Karakasis – Deputy Chairman of the Supervisory Board;
- Mr. Stavros Ioannou – Member of the Supervisory Board;
- Mr. Michalakis Louis – Member of the Supervisory Board;
- Mr. Anastasios Nikolaou – Member of the Supervisory Board;
- Mrs. Christina Theofilidi – Member of the Supervisory Board.

The Supervisory Board meets regularly, however not less than once per quarter, or, if necessary, more often, given at least seven days written notice.

The Supervisory Board is considered to be in quorum and meets validly when at least half of its members are present, either in person or represented by another member. Decisions are taken by simple majority, to the extent that the Statute or the law does not require a higher majority. Supervisory Board meetings minutes are kept in a special book and signed by all the members present at the meeting and the Corporate Secretary of the Bank.

The Supervisory Board has established specialized committees to facilitate its own work:

## Risk Committee

The Supervisory Board has delegated to the Risk Committee the role of approving all strategic risk management decisions and monitoring the quantitative and qualitative aspects of all market, credit, liquidity and operational risks. The committee develops risk policies and procedures and monitors their implementation.

## Audit Committee

The Audit Committee assists the Supervisory Board in discharging its oversight responsibilities primarily relating to:

- The review of the adequacy of the Internal Control and Risk Management systems and the compliance with rules and regulations monitoring process;
- The review of the financial reporting process and satisfaction as to the integrity of the Bank's Financial Statements;
- The External Auditors' selection, performance and independence;
- The effectiveness and performance of the Internal Audit and Compliance functions.

As part of its overall system of internal controls the Bank has established a number of dedicated control functions whose main responsibility is to act as independent control mechanisms thus reinforcing the control structure of the Bank.

## Internal Audit

The Internal Audit Division assists the Supervisory Board and the Audit Committee by providing an independent appraisal of the adequacy and effectiveness of the internal control and risk mitigation systems. The Internal Audit Division provides proactive support to the management in the promotion of internal controls and management of risk through recommending leading control practices and assists the management in prevention of fraud and defalcation.

## Compliance

Postbank sets policies and controls designed to ensure that the requirements of the relevant regulatory authorities, laws and regulations are complied with at all times. The Bank actively promotes compliance as part of the culture of the organization and continues successfully to manage and minimize the compliance risk and to prevent from infringement of ethical and legal norms.

The Compliance Division is focused on establishing and maintaining an appropriate system of internal controls and addressing the compliance risk. Its main responsibilities include:

- To control and prevent against using the Bank for money laundering and terrorism financing;
- To monitor staff adherence to internal rules, including Code of Conduct and Professional Ethics;
- To carry out investigations in response to requests by regulatory and other authorities, to provide information and co-operate with them in order to facilitate their work;
- To assist and advise management on the prevention of fraud, illegal and unethical practices;
- To address other compliance issues (e.g. data protection issues).

## Corporate Governance

The Corporate Governance Department facilitates the management through ensuring the implementation of the Eurobank Group's governance policies and procedures, the requirements of the regulatory authorities, laws and the best corporate governance practices and providing advisory support to the other Eurobank Group companies in Bulgaria.

## Corporate Secretary

The corporate secretary prepares and ensures the carrying out of the entire process of decision taking and meetings, duly called and conducted, of the Shareholders General Meeting, the Managing Board and Supervisory Board, in compliance with the requirements of the legislation and of the local regulatory authorities. The corporate secretary is responsible for observance of all the legal requirements for publication and submission of the decisions and other corporate documents, approved and adopted by the Shareholders General Meeting, the Managing Board and Supervisory Board, with the Commercial register when required by law for the purpose of their announcement and entry into force.

### Shareholders' Structure

As at 31 December 2017 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A., Greece owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V., The Netherlands and 0.01% by minority shareholders.

### Other subsidiaries of Eurobank Group in Bulgaria

- ERB Leasing EAD;
- Bulgarian Retail Services AD;
- ERB Property Services Sofia AD;
- IMO Property Investments Sofia EAD;
- IMO Central Office EAD;
- IMO 03 EAD.

## RISK MANAGEMENT

Operating in a changing environment Postbank, acknowledges its exposure to significant risks and the need for their effective management. Risk management is an integral part of the Bank's commitment to providing continuous and high-quality returns to its shareholders. The delivery of superior shareholder returns depends on achieving the appropriate balance between risk and return, both in day-to-day business and in the strategic management of the Bank's balance sheet and capital.

The Bank's risk management organizational structure ensures the existence of clear lines of responsibility, the efficient segregation of duties and the prevention of conflict of interest at all levels, including the Management Board, the senior management, as well as among its customers and shareholders.

### Management and Representative Bodies

Within the Bank, risk management activities broadly take place at the following levels:

- Strategic level – encompasses risk management functions, performed by the Supervisory Board and Management Board;
- Tactical level – encompasses risk management functions, performed by the Risk Committee and the Executive Committee;

- Operational (business line) level – involves management of risks at the point where they are actually created. The relevant activities are performed by individuals who undertake risk on the organization's behalf. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant operational procedures and guidelines set by the Management.

### Credit Risk

Credit risk is the risk a counterparty creates by being unable to fulfil its payment obligations in full when due. Credit risk also includes country, settlement and concentration risk. A credit risk arises principally from the corporate and retail lending activities of the Bank, as well as from credit enhancement provided such as financial guarantees and letters of credit. The Bank is also exposed to credit risk arising from other activities such as investments in debt securities, trading activities, capital markets and settlement activities. Credit risk is the single largest risk the Bank faces. It is rigorously managed and monitored by a centralized Risk Division. The Head of Risk Division directly reports to the Group's Chief Risk Officer and indirectly to the Chief Executive Officer of the Bank.

The Bank employs the following risk management methods in order to reach its defined credit risk targets:

**Risk avoidance:** In lending operations, the Bank rejects loan proposals with poor creditworthiness on the basis of internal risk models and ratings, and by defining risk-sensitive business focuses by means of specific exposure limits and target portfolio.

**Risk mitigation/limitation:** The Bank demands collateral and applies credit risk mitigating techniques, and adheres to defined credit risk limits as derived above.

**Risk diversification:** By diversifying its portfolio, the Bank hedges its dependence on specific developments, thus reducing the credit risk. Should the Bank's portfolio fall below the desired degree of diversification, the Bank would take the respective appropriate measures.

The Bank's credit risk management is supported by stress tests for credit risk, carried out twice a year and simulating adverse macro-economic scenarios. The simulation aims at measuring the Bank's vulnerability degree to different scenarios of change in the risks expression that arises from extreme shocks external to the loan portfolio, as well as the Bank.

### Market Risk

The Market Risk Department is the unit responsible for the independent identification, assessment, monitoring and control of the Bank's exposures to market risks, aimed at keeping the potential financial losses from adverse changes in market variables, such as interest or foreign exchange rates and equity prices, within acceptable levels. The Bank's Market Risk policy and the related procedures apply to the control of the market risks, arising from all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both trading and non-trading activities that generate market risks.

In 2017, the process of measuring, monitoring, analysing, reporting and managing the Bank's exposure to market risks continued being in line with the Group's standards and best practices. The analysis of the Bank's risk exposure is supported by stress tests for market risk, carried out on a regular monthly basis and simulating adverse interest rate, foreign exchange and equity portfolio scenarios, which have proven to be a valuable forward-looking risk-management tool.

At present, the Bank does not take material open foreign currencies positions other than the euro, which keeps the exposure to currency risk at low levels. The Bank's overall exposure to interest rate risk also remained low, largely due to the floating rate nature of the majority of its assets and liabilities, the short re-pricing periods



and remaining tenors and the active management of the interest rate gaps. A significant part of the interest rate risk arising from the fixed-income sovereign bond portfolio is hedged through asset swaps. The Bank's proprietary equity portfolio consists of equities, listed on the Bulgarian Stock Exchange, with equity price risk monitoring and management performed on a daily basis, enhanced by daily calculations of portfolio VaR. Counterparty risk monitoring and management is also performed daily together with the monitoring of PFE limits for derivative exposures with corporate customers.

## Liquidity Risk

Prudent liquidity risk management and appropriate supervision and control are essential elements of the effective management of the Bank. The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position to withstand potential stress events. The ultimate responsibility for liquidity management lies with the Assets and Liabilities Committee (ALCO).

In 2017, Postbank continued maintaining a very strong liquidity position. The regularly monitored internal liquidity ratios and liquidity buffers remained significantly above the required levels. The regulatory "liquid assets ratio" as per BNB Ordinance No 11 stood at 39.15% at the end of the year, well above the minimum level required by the central bank, while the estimated Liquidity Coverage Ratio (LCR), according to the requirements of Regulation (EU) No 575/2013 of 31 December 2017, stood at 575%. The positive outlook of the Bank's liquidity position has also been emphasized by the successful results from the regular monthly performed stress tests for liquidity risk, showing that the Bank has built a very strong capacity to withstand extremely adverse scenarios.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk.

Operational risk management in the Bank is supported by a framework of policies, procedures, methodologies and processes designed to identify, assess, mitigate, monitor, control and report operational risk. This risk may manifest itself as: internal and external fraud, execution, delivery and process management failures, business disruption and system failures, damage to physical assets, customer claims concerning improper use of products or business practices, improper employment practices and workplace safety.

Operational risk management in Postbank is based upon five distinct, even though interrelated and integrated programmes:

- Operational Risk Events Data Capturing;
- Key Operational Risk Indicators (KRIs);
- Risk and Control Self-Assessment (RCSA);
- Fraud Risk Management;
- Operational Risk Scenario Analysis (i.e. focuses on rare, catastrophic events and their potential impact).

All aforementioned programmes are backed by dedicated IT applications provided and managed by Eurobank Group.

Since its establishment in 2010, the Operational Risk Committee has provided continuous oversight and management of actual operational risk exposure, as well as of the processes for assessment, monitoring and mitigation of operational risk. Regular meetings have been held with the participation of Bank's Senior Management.

# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF EUROBANK BULGARIA AD

### Our opinion

We have audited the financial statements of Eurobank Bulgaria AD (the "Bank") which comprise the balance sheet as at 31 December 2017, and the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

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

### Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

### Our audit approach

#### Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

<b>Overall materiality</b>	BGN 7,555 thousand
<b>How we determined it</b>	Approximately 5% of profit before tax
<b>Rationale for the materiality benchmark applied</b>	We applied profit before tax as a benchmark because, in our view it is the benchmark against which the performance of the Bank is commonly measured by the users of the financial statements and it is a generally accepted benchmark.

### Key audit matters

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

#### KEY AUDIT MATTER

##### Impairment allowance for loans and advances to customers

Refer to page 94 (Note 13 “Loans and advances to customers”)

We focus on this area because management makes subjective judgement over both timing of recognition of impairment and the estimation of the amount that should be recognized.

The identification of impairment and the determination of loans recoverable amounts are part of the Bank’s estimations including, amongst others, the assessment of objective evidence for impairment, the probability of default, the financial condition of the debtors, the expected future cash-flows and the value of collateral. The use of different assumptions could lead to different estimates of impairment charges on loans and advances to customers. As this position represents substantial part of Bank’s total assets and given the related estimation uncertainty, we consider this as a key audit matter.

#### HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our audit approach included an assessment of the overall governance of the Bank’s lending and impairment process.

We have assessed the methodology for the compliance with IAS 39 “Financial instruments: classification and measurement”.

We have assessed and tested the design and operating effectiveness of the controls over the lending and provision processes and determined that we could rely on these controls for the purposes of the audit.

For individually impaired loans we have performed, for a sample of corporate credit exposures, a detailed review of loans files. We challenged the assumptions related to impairment identification and quantification of expected of future cash-flows (recoverable amounts) determined based on either valuation of underlying collateral or other recoveries. We found no material exceptions resulting from our tests.

For the loan impairment calculated on a collective basis, we tested the underlying models and the appropriateness of the key inputs such as probability of default and loss given defaults, and where available, compared data and assumptions to historical experience.

We have not identified material misstatements as a result of our work.

### Information other than the financial statements and auditors’ report thereon

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Additional matters to be reported under the Accountancy Act and Ordinance 38/2007 issued by the Financial Supervisory Commission

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report, the Corporate Governance Statement and the Non-financial Declaration, we have also performed the procedures added to those required under ISAs in accordance with the “Guidelines Regarding the New and Enhanced Auditor Reporting and Communication by the Auditor” of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

#### Opinion in connection with art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the Annual Activity Report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
- The Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The Corporate Governance Statement for the financial year, for which the financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8 of the Public Offering of Securities Act.
- The Non-financial Declaration or the financial year, for which the financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act.

#### Statement in relation to Art. 33 of Ordinance 38/2007 issued by the Financial Supervisory Commission (FSC) in relation to the requirements on the activity of investment intermediaries

Based on the audit procedures performed and the understanding of the Bank’s activity, in the course and



context of our audit of the financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts complies with the requirements of Ordinance 38 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### **Auditors' responsibilities for the audit of the financial statements**

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for the performance of our audit and for the audit opinion expressed by us in accordance with the requirements of the Independent Financial Accounting Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the Implementation of Joint Audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

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

In accordance with the requirements of the Independent Financial Audit Act in connection with Art.10 of Regulation (EU) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2017 by the general meeting of shareholders held on 31 December 2017 for a period of one year. We were first appointed as auditors of the Bank in 1998.
- Moore Stephens Bulgaria - Audit OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2017 by the general meeting of shareholders held on 31 December 2017 for a period of one year. Moore Stephens Bulgaria - Audit OOD was first appointed as auditors of the Bank in 2017.
- The audit of the financial statements of the Bank for the year ended 31 December 2017 represents 20th year of total uninterrupted statutory audit engagements for that entity carried out by PricewaterhouseCoopers Audit OOD.
- The audit of the financial statements of the Bank for the year ended 31 December 2017 represents the first statutory audit engagements for that entity carried out by Moore Stephens Bulgaria - Audit OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art.64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- In the period 1 January 2017 - 31 December 2017, PricewaterhouseCoopers Audit OOD have provided to the Bank, in addition to the audit, training courses for the amount of BGN 1 thousand and interim review for group reporting purposes for the amount of BGN 78 thousand, and PricewaterhouseCoopers Bulgaria EOOD have been delivering a tax project for the amount of BGN 7 thousand representing 30% of the total agreed fee for the project.

**For PricewaterhouseCoopers Audit OOD**

**Jock Nunan**



**Anna Boteva**



Registered Auditor responsible for the audit

Date: 03 04 2018

Sofia, Bulgaria

**For Moore Stephens Bulgaria - Audit OOD**

**Stefan Nenov**



**Stefan Nenov**



Registered Auditor responsible for the audit

Date: 03 04 2018

Sofia, Bulgaria

## ANNUAL DIRECTORS' REPORT

### ANNUAL ACTIVITY REPORT

The management presents the annual Activity report as of 31 December 2017.

### BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank is a licenced credit institution and an investment intermediary providing retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 260 Okolovrasten Pat Street, 1766 Sofia, Bulgaria.

The activities of the Bank are governed by the applicable legislation regulating the credit institutions and the investment intermediaries. Its principal regulators are Bulgarian National Bank (BNB) and the Financial Supervision Commission (FSC).

### BUSINESS OVERVIEW

#### Macroeconomic environment

In 2017 the world economy had probably the best year since the global financial crisis. All the major regions and economies are improving simultaneously, something not seen in the recent years. The growth of the world GDP is expected to reach 3.7% in 2017, led by investments and trade. The world trade has grown strongly in the second half of the year, supported by a rise of the manufacturing, especially in the Asia region, which had its roots in the higher level of investments. The outlook for the next two years is even brighter – GDP growth is expected to accelerate further to around 4% both in 2018 and 2019. The forecast is based on the assumption that current favorable conditions will remain present not only in the emerging markets, but also in advanced economies where the fiscal and monetary prospects have been improving. In the USA, the announced tax reform and the infrastructure stimulus pack are expected to give a boost to the economy, while the EU will continue to benefit from the supportive monetary policy, political stability and improving job market.

The downside risks for the forecast include rising geopolitical tensions and increased protectionism. In the longer term the focus of the policy makers should be on the structural policies needed to boost growth, strengthening the institutions responsible for promoting these policies, as well as the labour force participation, the latter being a significant challenge in the aging societies.

The EU economy, in particular, had a record year – real GDP growth is expected to reach 2.4% - not only the highest level in the last 10 years, but also more than half a percentage point above the forecasts. Such rates will be difficult to be sustained in the next two years due to the slowing employment growth, lower increase the real disposable income and moderate investment growth. The forecast for the growth of the EU countries is to ease to 2.2% and 2.0% in 2018 and 2019 respectively, while for the Eurozone countries it will be slightly lower at 2.1% and 1.9% respectively. The above forecasts do not include UK which is on its path to leaving the European Union in March 2019.

In many of the major economies the monetary policy returns to normality – the Federal Reserve kept raising the rates throughout 2017, a move which was followed by the Bank of England which raised its policy rate for the first time since 2008. ECB kept the policy rates at a historically low levels, but announced that it will limit the



net assets purchases from the beginning of 2018. Nevertheless, ECB reserved its right to extend the program and will not hurry to raise the policy rates in the Eurozone until the inflation remains subdued.

In 2017, the Bulgarian economy grew by 3.6%, according to the preliminary data by the NSI. Although the growth was slightly lower than in 2016 (3.9%) the sustained pace in the last three years is a sign that the Bulgarian economy has finally overcome the aftermaths of the crisis. The macroeconomic framework remains solid and some indicators are reaching levels last seen in the pre-crisis period.

The key driver was the consumption which increased by 4.5% YoY as the macroeconomic stability, the falling unemployment rate and the higher disposable income encouraged the households to spend more. Consumer sentiment index is inching upwards, but actions are more important than surveys as data shows that consumers are buying more durable goods. This, however, had its negative effect on the external sector – the contribution of imports shot up, rising 7.2% YoY, while the one of exports fell to 4.0% YoY.

As expected, investments have recovered in 2017 and their contribution was positive in the last three quarters as the launch of the new EU funded projects gained pace together with the renewed interest in the construction sector and the wave of new investments in manufacturing. Gross capital expenditure lost some momentum in the last quarter, but still rose by 3.8% in 2017, the highest since 2009.

Total exports (FOB) rose by 10.7% in 2017 to BGN 52.2 billion. In the first nine months of the year, the growth of exports to non-EU countries was outpacing the growth of the trade with EU, but in the last quarter the exports to non-EU countries turned negative and as a result both finished at exactly the same level. After dropping in 2015 and 2016, the exports to Russia strongly rebounded in 2017, rising by more than 80% YoY to BGN 1.4 billion and replacing China as the second largest trading partner outside the EU. Exports to China rose significantly – by 36% to BGN 1.25 billion. The rising economic activity encouraged the import of investment and consumer goods, causing a surge in the imports by 15.4% YoY to BGN 59.1 billion at CIF prices. The trade deficit had been shrinking in the last few years, reaching a low point of just BGN 4 billion at the end of 2016, but jumped again to BGN 6.85 billion for 2017.

Foreign direct investments reversed the negative trend and rose to €902 million in 2017. More than half of the investments were from debt instruments (€702 million), while the reinvested profit was just €230 million, compared with more than €341 million in 2016. It should be noted that throughout the year several companies made significant dividend payments to their foreign owners thus reducing the volume of reinvested profit. The biggest share of investments came from the Netherlands (€876 million), followed by Switzerland (€127 million) and Germany (€94 million).

2017 is the year that saw the return of the inflation in the country. While in 2016 the consumer price index was just above 0, in 2017 it climbed to 2.8%, the highest in the last 5 years. Inflation was driven by the higher prices of food and energy, a process that started in the second half of 2016 and continued in 2017. The prices of utilities rose by 5.4% YoY on average (the price of heating spiked by 23% caused by the 17% increase of the price of gas), food prices were 3.8% higher than a year before, while restaurants and hotels increased their prices by 2.8% on average. In the negative direction were the prices of only two commodity groups – communication (-0.7%) and clothing and shoes (-0.5%). Inflation is expected to subside in 2018 and fall to about 1.5% YoY, although the falling unemployment and rising salaries will continue to exercise an upward pressure on the consumer price index.

The labour market continues to recover and the shortage of staff becomes more acute in many sectors and regions. In 2017 the unemployment rate fell by 1.1 percentage points to 5.6%, according to data from NSI, the lowest since 2008 and already lower than the average for the European Union. There are significant regional differences in the unemployment rate – while in the Southwest region of Bulgaria (which includes Sofia) the unemployment rate is 3.3%, in the northwestern part of the country it is still above 10% and has been worsening for the last two years.

The number of unemployed fell to a new record low of 190 thousand, while the employment ratio among the 15 – 64 age group rose to 67.1% at the end of 2017, a record level in the modern history of the country. The economic recovery makes it possible even for the long-term unemployed to re-enter the labour market and their number is the lowest since 2010. Nevertheless, the aging of the population takes its toll and the labour force shrank by 250 thousand people in the last 10 years, more than two-thirds of whom are in the age group 15 - 24 years. On the other hand, the unemployment rate among the same group halved in the last 3 years to 11.6% and might even reach a single digit in 2018.

The average salary rose by 10.9% in 2017 to BGN 1,123. In most sectors, the salaries are rising with double digit rates, but the fastest growing sectors were education (the Bulgarian Government increased teachers' salaries last year) and the ones that are well below the average such as administrative activities and water supply and treatment. IT and Communications is still the highest paying sector with an average salary in excess of BGN 2,500.

The budget finished on a surplus for a second consecutive year. The surplus was BGN 845 million which came from a surplus of BGN 309 million from the national budget and BGN 536 million of the European funds. The budget was on a huge surplus throughout the year, in excess of 2% of GDP in the second half, but the Government kept its recent practice to redistribute significant amounts in December such as bringing forward the payment of agricultural subsidies and additional funding for the national program for energy efficiency. Budget revenues increased by 7.5% (BGN 1.5 billion) compared to the previous year. Almost two-thirds of the additional revenues came from VAT (BGN 970 million or 7.2% YoY) which was favourably affected by the higher imports and inflation. Higher salaries brought additional BGN 370 million in the budget, rising by more than 12.6% on an annual basis. The capital expenditures in 2017 were BGN 1.7 billion – just 82% from the annual plan and 15% lower than the actual in 2016.

At the end of 2017 the debt of the Central government was €12.7 billion (24.9% of GDP), down by €1.1 billion in the last year. In July 2017 a €950 million Eurobond issue matured and was repaid with funds from the fiscal reserve. The Bulgarian government is planning a balanced budget this year and does not foresee additional financing from the international markets.

In 2017 all three major credit rating agencies improved the credit rating of the country by one level. The rating of Bulgaria according to Fitch is BBB (long-term rating in foreign and local currency with stable perspective), according to Moody's – Baa2 (both in local and foreign currency with stable perspective) and according to S&P – BBB- (again in local and foreign currency with stable perspective).

### Banking system

The Bulgarian banking system had another strong year although the competition continued to erode the income of the banks. The net profit (BGN 1.17 billion) was 7% lower than the previous year (BGN 1.26 billion) but in 2016 the banks booked a one-off gain of about BGN 180 million related to the acquisition of Visa Europe by Visa inc. Lending seems to have recovered, despite a wave of write-offs throughout the year. The positive macroeconomic recovery reinvigorated the demand for loans and on an annual basis total loans grew by 3% to BGN 56.1 billion. Loans to companies rose by 1.1% to BGN 36.3 billion, while the consumer loans were up by 5.5% to BGN 9.15 billion. Mortgage lending was in the forefront with loans rising by 7.8% YoY to BGN 9.46 billion, fuelled by the renewed interest in the real estate market. Another reason for the stronger demand for loans is the expectation that the 'low interest rates' cycle is coming to an end and in the next year the rates will start reversing direction. This has probably already happened in the consumer lending segment where the rates have been rising since the middle of the year.

The rise of the interest rates will be held back by the huge liquidity buffers that the Bulgarian banks have accumulated over the last years. In 2017 alone, the companies and households added close to BGN 4.3 billion to their savings and although this is lower both in relative and absolute terms than in the previous

year, it is still more than BGN 1.7 billion above the delta of the net loans. This excess was added to the liquid assets of the banks which reached BGN 32.9 billion bringing the liquidity ratio to 39%.

Deposits from nonfinancial companies rose by 13% (BGN 2.8 billion) to BGN 24.2 billion, while the deposits from households - by 4.8% (BGN 2.26 billion) to BGN 49.5 billion. A significant drop (almost 30% YoY) was observed in the deposits from other financial institutions (mainly insurance and pension companies) which were withdrawn in search of higher return and as a protection from the negative rates imposed by some banks in response to the negative rates on the excess reserves held in BNB. On average, Bulgarian banks pay about 0.2% for their deposits, about half of what was paid a year ago, but they still struggle to find a profitable use of their excess liquidity.

The lower interest expenses could not compensate the erosion of the interest income caused by the strong competition in the lending market. Interest income decreased by BNG 273 million (8% YoY) to BGN 3.04 billion, while interest expenses were BGN 143 million lower (28% YoY) than a year before. Net fees and commissions income helped close some of the gap – it was by BGN 75 million (8.1% YoY) higher. Total income was down by 4.3% YoY (BGN 175 million) to BGN 4.1 billion. The banks are trying to protect their profitability with a stricter control over the expenses – 1.2% YoY decrease to BGN 1.8 billion and lower provisions for impairment - 6.3% YoY decrease to BGN 745 million, but only to a point – RoE fell by 1.2 pp to 9.5% and cost-to-income ratio increased by 1.5 pp. to 46.5% in 2017.

The cleaning of the loan portfolios from the nonperforming exposures is progressing with a steady pace – NPE ratio fell by 3.5 pp YoY to 14.8%, while the coverage remained stable at 53%. The volume of the nonperforming exposures overdue more than 1 year dropped by close to 20% (BGN 1.2 billion) throughout the year, mostly because of write offs and portfolio sales. Several large portfolio sales were completed or were in the making. This process will continue in 2018 as the banks have still some BGN 8.3 billion nonperforming exposures on their books at the end of 2017 of which BGN 5.3 billion were overdue more than 1 year. The capital adequacy remains solid – the capital adequacy ratio as of September 2017 was 22.2%, same as in December 2016 despite the rising lending portfolio and record dividend payments by the biggest banks in 2017.

### Major changes in the regulatory environment

In December 2017 amendments in the Law on Credit Institutions came into effect, implementing the recommendation from the Financial Sector Assessment Program. In order to obtain a license the banks will be obliged to provide information about the ultimate beneficial owner of the shareholders with qualifying holdings. The law also broadens the list of the borrowers which will be treated as related parties to the Bank. Internal exposures will have to be approved not only by the Management Board of a bank, but also by its Supervisory Board, respectively from the nonexecutive members of the Board of Directors.

In December 2017 Regulation (EU) 2017/2395 was adopted amending Regulation (EU) No 575/2013 in regards to the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the local currency of any Member State. With regard to IFRS 9, the regulation allows for a progressive phase-in regime that would mitigate the impact of the new impairment model. The institutions will be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period of a maximum duration of 5 years.

The Regulation also provides for transitional arrangements for the exemption from the large exposure limit available for exposures to certain public sector debt of Member States denominated in the domestic currency of any Member State. The transitional period should have a duration of 3 years starting from 1 January 2018 for exposures of this type incurred on or after 12 December 2017, whilst exposures of this type incurred before that date should be grandfathered and should continue to benefit from the large exposures exemption.

### Eurobank Bulgaria performance and key indicators

Eurobank Bulgaria managed to outperform the results from 2016 and booked another record year in its history. The net profit reached a new height of BGN 136 million, almost 14% higher than in the previous year. Return on equity remains stable at 11.43%, despite being calculated on a higher denominator. The Bank has been performing better on all fronts – assets, loans and deposits have risen, income has increased, costs have fallen and provisions for impairment have remained stable.

In 2017 Eurobank Bulgaria returned to organic growth, after the successful completion of the acquisition of the branch of Alpha Bank Bulgaria in 2016. Total assets rose by 8.8% (BGN 603 million) to BGN 7,421 million allowing Eurobank Bulgaria to become the 4<sup>th</sup> largest bank on the market in terms of assets. Growth of assets was deposit-driven with total deposits rising by close to BGN 556 million (10.1% YoY) to BGN 6,080 million. The deposits from corporate customers were rising faster than the retail deposits which is helping to rebalance the deposit structure, to increase the transactional income and to reduce the average cost of funds. Deposits from corporate customers increased by BGN 337 million (31% YoY) to BGN 1,430 million, while the retail deposits (including small businesses) picked up more modestly – by BGN 219 million (5% YoY) to BGN 4,650 million. Corporate deposits account for 24% of all client deposits, up from 20% a year earlier.

Liquidity remains robust – liquidity ratio at the end of 2017 was 39.15% (1 pp decrease vs. December 2016) and Eurobank Bulgaria added another BGN 140 million to its liquid assets to a total of BGN 2,403 million. The Bank is fully self-funded as client deposits are more than 99% of all attracted funds. Deposits from banks and other borrowed funds fell by BGN 61 million to BGN 39 million as the Bank is able to finance itself cheaper from the local market than from institutional clients.

Eurobank Bulgaria managed to benefit from the renewed demand for loans by the clients and expand its lending portfolio with a focus on secured and business lending. Gross loans increased by BGN 571 million (12.3% YoY) to BGN 5,198 million. Four-fifths of the gross lending delta came from the corporate clients and their loans at the end of 2017 were BGN 2,152 million or 41% of the total lending portfolio. Lending to corporate clients helps utilizing faster the excess liquidity and increase the income giving portfolio in a cost-effective manner without compromising the strict lending criteria. Mortgage and consumer loans rose by about 5% each (BGN 85 million and BGN 30 million) to BGN 1,656 million and BGN 678 million respectively. Lending to small businesses remained virtually unchanged, but are expected to rise in 2018 driven by the economic growth and the new lending programs aimed at encouraging lending to small and medium businesses.

Net loans rose faster than gross loans (by BGN 614 million or 14.6% YoY) as the Bank continued to implement its strategy for reduction of nonperforming exposures through collection, write offs and portfolio sales. The ratio of loans overdue more than 90 days to total loans improved by 3 pp while the coverage ratio remained stable at 58%.

In 2017, the shareholders of Eurobank Bulgaria taking into account the stable financial position of the Bank, as well as the results from the regular and extraordinary stress tests performed in the past few years, decided to approve the distribution of dividend for the first time since 2004. The dividend payment amounted to BGN 58.7 million (€30 million) or just below 50% of the net profit for 2016. The effect on the CET 1 ratio is calculated at about 130 bps. In addition, the implementation of Delegated Regulations 241/2014 and 183/2014 in 2017 lowers the CET1 ratio by another 40 bps. These two effects fully account for the 1.6 pp decrease of the CET 1 in 2017. At the end of 2017, CET 1 ratio stood at 21.77%, well above the regulatory requirements, ensuring that the Bank has enough funds to continue growing organically.

The competition in the market puts an enormous pressure on the interest rates of the new loans. Eurobank Bulgaria's interest income decreased by only 2% YoY to BGN 298 million as the new lending volumes helped



alleviate to some extent the drop in the interest rates. On the other hand, despite the significant deposit inflows, interest expenses were reduced by 56% to BGN 14 million fully mitigating the decrease of the interest income. Net interest income increased by 4% to BGN 284 million, rising for a fourth consecutive year, while the net interest margin stood at 4.05% at the end of 2017. Net fee and commission income jumped by 15% YoY to BGN 80 million. The Bank successfully implements its strategy for enhancing the relationship with the clients and promoting cross selling, leading to higher revenues in the areas of money transfers, account maintenance and foreign exchange operations. Other operational income is BGN 11 million lower than in 2016 or exactly the result from the loan portfolio sales in 2016. Even without taking into account this one off effect, total operational income in 2017 was 1.2% higher to BGN 371 million.

Cost-to-income ratio improved substantially, falling by 4.7 pp to 35.5% as costs returned to their normal levels after the acquisition of Alpha Bank Bulgaria in 2016. Total costs were 132 million in 2017 (11% reduction vs. 2016) after the accommodation for the enlarged branch network and the higher number of staff as a result of the acquisition. Net fee and commission income already covers 61% of the operating expenses of the Bank which is an important indicator for the efficiency of its operations. Provisions for impairment (BGN 69.7 million) were at the same level as in 2016, but are falling as a share of net loans from 1.7% to 1.4% in 2017.

### Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2017.

## RISK MANAGEMENT

The Bank considers risk taking as an integral part of its activities for achieving the strategic and business objectives. Risk taking is core to the financial business, and the operational risks are an inevitable consequence of being in business. Therefore, timely and effective management of risk is a key priority of the Bank's management.

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of a combination of risks. The risk management policy reflects the Bank's objectives. It is therefore not intended that large risk positions are maintained to increase short-term profitability. The Bank's intent is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Bank Risk Management unit, forming the basis for consistent definition of strategies, policies and procedures across all risk taking units within the Bank. The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Supervisory Board of the Bank (SB) has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. It is currently complemented by the Risk function. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The Bank Risk Management function is capturing all material risk sources across all portfolios and operations. Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally, and compliance with internal and external rules.

The Bank's Risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed

to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks.

The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making and to adopting the proper risk management and control mechanisms. The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken.

The Bank manages with higher priority the following major types of banking risks arising from its activities – credit risk, market risk, liquidity risk and operational risk.

### Credit risk

Credit risk is the risk related to the inability of customers/counterparty to fully repay the amounts due to the Bank within the period scheduled.

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, and counterparty risk in over-the-counter derivative transactions.

The Bank uses rating systems and slotting methodology to assess the creditworthiness of its corporate borrowers. The rating systems aggregate quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them.

Exposures to credit risk are managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate. The exposure to any borrower is restricted by limits covering on- and/or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange and interest rate derivatives, letters of credit, letter of guarantee and other financial instruments.

In compliance with its risk strategy, the Bank targets the maintaining of low level of credit risk concentration by industries and at customer level.

The Bank makes assessment of the risk exposure, evolving from the loan portfolio by classifying and provisioning loans in compliance with the requirements of the IFRS and Impairment Policy applied on a monthly basis. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans.

### Market risk

The Bank takes on exposures to market risk, which is the risk of potential financial loss due to adverse changes in market variables such as interest rates, equity prices or foreign exchange rates. The fair value or future cash flows of a financial instrument may fluctuate because of changes in market variables and though may influence the Bank's profitability.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market & Counterparty Risk Policy, developed. It is further supported by procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The market risk control and supervision framework set by the Bank aims to protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business as well as to develop objective, transparent and consistent market risk information as a basis for sound decision making. The Market Risk Control function helps to align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks and to link business strategy and operations with the objectives for risk control and supervision.

The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks as well as through characteristics such as different types of allowed markets, products, countries, counterparties and currencies. Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

The market risk measurement system measures risk arising from exposure to the following specific market risk factors, i.e. the specific market prices or rates that affect the value of positions. The Bank is exposed to the following main types of market risks:

#### a) Interest rate risk

Banking is related with a permanent maintenance of positions sensitive to the fluctuations in the prevailing levels of market interest rates, which influences the Bank's financial position and cash flows dynamics. Interest rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk, volatility risk. The Management reviews the interest rate gaps and the interest rate mismatch and the necessary reprising that may be undertaken on a monthly basis.

#### b) Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board arrangements. The Management sets limits on the open positions in individual currencies as well as on the aggregate open positions for both overnight and intra-day positions, and these limits are monitored on a daily basis.

#### c) Equity price risk

Equity price risk is the risk of the decrease of fair values as a result of changes in the levels of equity indices and the value of individual stocks. It may include outright risk, volatility risk, spread risk and dividend risk.

### Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place. Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

Market Risk Department is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios and is the unit which exercises an independent liquidity risk control function, escalating any excess in ratios to the respective management bodies.

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank. On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division.

The Bank's financial risk management objectives and policies, the exposure to credit risk, market risk and liquidity risk and sensitivity analysis for market risk are set out in notes W.1, 2 and 3 to the financial statements.

### IMPORTANT EVENTS DURING THE YEAR

Postbank, legally registered as Eurobank Bulgaria AD, is the fourth bank in Bulgaria in terms of assets. It has a wide branch network across the country and considerable customer base of individual customers, companies and institutions.

The Bank has a 26-year presence among the leaders on the Bulgarian banking market. It has been a leading factor in the innovations and a trend setter in the country's banking sector in recent years and has been awarded for its innovations many times. The financial institution is holding a strategic position in the retail and corporate banking in Bulgaria. The Bank is among the market leaders in credit and debit cards, housing and consumer lending, savings products, as well as in corporate customer products – from small companies to major international companies represented in the country. The financial institution has one of the best-developed branch networks and modern alternative banking channels.

Postbank won the prestigious *Employer of the Year Award* for 2017 in the first annual awards for Employer branding of b2b Media. The financial institution was awarded for its comprehensive strategy of building an employer brand, which includes various activities to improve the working environment, the successful management, development and retaining of talents, the opportunities for professional development and involvement of employees in projects, and campaigns aimed at improving the state of the environment and supporting the society.

In June 2017, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's long-term rating of BB+ and its short-term rating of B, with positive outlook. The Bank's long-term rating in the national rating system was also confirmed to A-(BG) with positive outlook.



Throughout the year Postbank continued to develop modern banking products and services, which are unique for the market, and give real added value to the customers. Following the example of the innovative financial practices around the world, and targeting to meet the expectations of the modern consumer, in September 2017 the Bank invested in the development of Momento – an entirely new brand for innovative consumer lending, which will be further developed in 2018. The Bank financing in the special Momento centres focuses on the convenience, speed and individual approach. The new centres are part of the Bank's strategy to develop digital financing channels, which are aimed at achieving sustainable consumer experience. In 2017, Postbank continued to develop its specialized consumer and housing lending centres for the convenience of its customers across the country.

In 2017, Postbank won an award in the *Quality* category of the third annual *Successful Business Awards* of the Confederation of Employers and Industrials in Bulgaria (KRIB). The prestigious prize was awarded to the financial institution for the development of quality products, modern service channels, web-based services and sustainable benefits for the customers. The Bank also won the prestigious award in the *Dynamics of Development* category in the annual awards of the Bank of the Year Association.



In August, the global leader in payment services Western Union (Western Union Regional Business Team Bulgaria) awarded Postbank the special prize for *Business Development* for 2016 and distinguished it among the partner banks of the organization. The prize was awarded for the high quality of the services offered in all branches of the financial institution in the country and for the reported transaction growth.

Global Custodian – the world's most prestigious magazine in custodian services, known for its annual surveys accepted as a benchmark in the sector – declared Postbank the top custodian in Bulgaria for a sixth consecutive year. The Bank once again reported the highest scores in all categories. Postbank is the biggest depository bank in Bulgaria – it has the highest number of collective investment schemes serviced, and is an exclusive representative of one of the biggest European depositories – Clearstream Banking Luxembourg.

The financial institution won the prize *Best Bank in Bulgaria* in Commercial Financing in the Global Banking & Finance Review's annual ranking for 2017.

Postbank expanded the options for corporate funding at favourable conditions by signing a EUR 70 million-worth guarantee agreement with the European Investment Fund (EIF) under SME Initiative Operational Programme. The agreement is to provide guarantee on the loans issued by the bank with 60% coverage by the EIF. For a third consecutive year, the bank supports the national contest of 24 Chasa Daily – The Big Small, because it believes in the importance of small business.

Postbank retained its leading position in the factoring services market in terms of purchased receivables and is factor No 1 in Bulgaria for a fourth consecutive year with 37% market share of the total volume of factoring services and with over 68% share of the export factoring. The bank has attracted both new corporate customers and new counterparties to its existing customers, thus, building a stable and profitable portfolio.

Additionally, Postbank reported 50% housing lending growth on an annual basis. According to the Bank's data, the mortgage business is developing faster in the major cities, such as Sofia, Varna, Burgas, Plovdiv and Stara Zagora where the financial institution reported double-digit growth, while the growth in Blagoevgrad, Dobrich and Veliko Tarnovo is even over 100%.

Postbank continued to organize the series of specialized conferences in support of the business in the country

entitled *Postbank Meets Business* throughout the year. In 2017, the Bank's team visited Burgas, Varna, Russe and Haskovo. At the meetings, the bank's experts present strategic solutions in support of the business in the respective regions to the local business.

Postbank continues to develop its modern Private Banking centre through its partnership with Eurobank Private Bank Luxembourg and its 100% specialized and strictly personalized private banking services. The bank's customers can benefit from a set of discretionary asset management and business consulting.

At Postbank's invitation, eight Bulgarians took part in the Beyond Hackathon competition, which is part of the Eurobank's Innovations Centre initiatives, and which is aimed at inspiring, developing and promoting the open innovations in the financial services. The bank supported the competition for a second consecutive year. One of the Bulgarian teams impressed the jury with its idea to implement an easy way to make donations using the banks' loyal customer programmes.

## NEW PRODUCTS

In 2017, Postbank introduced more innovative products and services focusing on providing convenience and additional benefits for its customers.

*The More Today* lending programme is Postbank's latest financial solution, which imposed new standards in the consumer lending in Bulgaria. It allows the customers to increase the disposable income by up to 50%, and in certain cases even more. It includes a wide range of lending products, and with it, the customers can consolidate their debts on credit cards, consumer and mortgage loans of up to BGN 100,000 quickly and easily. Besides the better personal finance management, the programme allows the users to save time, paying one higher instalment in one bank on a set date. *The More Today* lending programme is one of the most successful products of the financial institution. It brought the bank gold *Effie* prize in the prestigious contest *Effie Bulgaria*, and won the first prize in the *New Service* category in the marketing excellence contest *BAAwards'2017*, which is organized by the Bulgarian Advertisers' Association.

Postbank presented another new product to its customers in 2017 – the innovative credit card *Mastercard Cash*, which allows the consumers to withdraw cash without interest, which won a bronze prize in *Effie Bulgaria's Services* category. Postbank was also declared the most effective brand according to the *EFFIE Index Bulgaria 2017*.

In March the bank offered its customers another new product without analogue on the Bulgarian market after it carried out an in-depth survey of the consumers' attitudes. *Supper Account* is an innovative payment salary account, which allows the customers to remove the monthly fee themselves and to even receive monetary bonus by using it actively every day. The new product stimulates the more inexpensive and convenient electronic payments, and provides monthly bonuses. Thus, instead of paying a monthly fee, the customers can enjoy serious financial advantage from its salary account. The bank will automatically remove the monthly maintenance fee with only five electronic transactions per month, such as cash withdrawal from an ATM, payment at a POS terminal in an outlet or online shopping. Moreover, upon the payment of three utility bills via the online (e-Postbank) or mobile banking (m-Postbank), the customers will also receive additional monetary bonus equal to the monthly maintenance fee.

In April, Postbank launched its modern and convenient *Mobile Bankers* service in three more towns in the country. Along with Sofia, mobile bank experts consult existing and future customers of the Bank in Plovdiv, Varna and Burgas. The service is a free-of-charge professional consultation, as the experts provide solutions tailored to the specific needs of the customers and assist in filling in the required documents and their submission in a bank office. In a place and time of the customer's choice, the mobile bankers answer all questions related to consumer and housing loans, overdrafts, and credit cards.

To meet the consumer demand for investment options with higher yields, Postbank developed a new and attractive deposit product – Structured Deposit INDEX. Deposit INDEX is a deposit in EUR with maturity of 36 or 60 months and with guaranteed principle, minimum basic interest rate, and the option for additional profitability – a bonus interest rate. The bonus rate is tied to the performance of the STOXX Europe 600 Health Care. It is part of the German stock exchange group (Deutsche Boerse Group) and is one of the indicators for the performance of the so called super sectors in the European economy. The index monitors the performance of key companies in the healthcare sector. The bank presented its customers and partners the new Structured Deposit INDEX at a stylish event in May.



Postbank entered into partnership with Booking.com, the world leader in providing accommodation, as all holders of the credit cards Mastercard and Visa by Postbank receive additional 5% discount for each booking in Bulgaria or abroad made with Booking.com through the bank's website.

In the last year, Postbank registered significant increase of 55% on an annual basis of inquiries made by Bulgarians working abroad for purchase of properties in Bulgaria. The bank offers a convenient solution to these customers with the housing loan *At Home*, which was developed with the Bulgarians abroad in mind. The maximum amount of the *At Home* loan is BGN 500,000, and has up to 25 years repayment period. The loan has attractive interest rate and is offered to Bulgarian citizens who have had a permanent employment contract in the EU, the European Economic Area and Switzerland for at least a year.

In mid-August 2017, Postbank presented a new version with a new design of its modern mobile banking application m-Postbank.

As a modern bank that has respect for the protection of the environment and care for its customers, Postbank is among the first on the Bulgarian market, which introduced digital signing of documents in its entire branch network. The new service of the financial institution offers even more convenient and faster way to carry out payment operations, and higher level of security for the customers and their transactions.

The additional security in the customer identification is provided by the availability and storage of electronic signature specimen, which is compared to every subsequent signature of the customer. Signing with a digital signature is an innovative way of confirming payment documents, which eliminates the need to put signature on paper and the respective document archiving.

## SUSTAINABLE DEVELOPMENT

In addition to its main operations, Postbank continues to focus on the needs of the local community by jointly supporting programmes and initiatives with established institutions and organizations. The Bank is striving to teach both its employees, and the consumers and society, to be responsible towards everything that surrounds them. Postbank is aimed not only at creating competitive advantages by adding increasingly higher value in the products it offers but also at reducing its negative impact on the environment by using every opportunity to contribute to nature conservation.

In 2017, the Bank carried out a number of socially significant projects in education, environmental protection, sports and corporate donation. Postbank is an active member and supports initiatives of the CRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borika AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov Foundation, the UN Global Compact Network Bulgaria

and the Bulgarian Association of Advertisers.

The education of children and young people in Bulgaria has always been part of the social responsibility projects developed and supported by Postbank. In 2017, the financial institution supported the National Trade and Banking High School in Sofia for another year and committed to becoming a mentor to one of the training banks. Postbank Next deservedly won the second place in the school competition.

Postbank started the application and approval process for its traditional summer internship programme. The internship has been part of the Bank's corporate social responsibility policy in support of the young people, for over ten years now.

For a third consecutive year, Postbank supported Bulgaria ON AIR and Bloomberg TV Bulgaria's conference – Education and Business. The international forum brought together representatives of leading companies that are working for the young people's development every day. The financial institution is actively participating in OPEN HOUSE – an event of the American University in Bulgaria. The long-lasting strategic relations with the prestigious school helped the bank's team to present successfully products for students and their parents. The bank joined the international forum NEXT DIFI 2017, organized by b2b Media, and the second annual conference Finances in the Digital World, organized by Banker Weekly. The international conference Dare to Scale, organized by the Bulgarian office of the global entrepreneurial organization Endeavor, took place for a first time in Sofia, with Postbank's main support.

The Bank's team enthusiastically supported the Forbes Magazine event – the 30 Under 30 forum, which brings together 200 of the most successful young people in Bulgaria – entrepreneurs, managers, people with social causes, athletes and artists, for a second consecutive year. They were inspired by Bulgarian and international lecturers and shared their personal stories, the road to their success, the challenges they faced, and the lessons they learned.

Postbank's team held open lessons and training for pupils from different towns across the country within the European Week of Money 2017, at the initiative of the Association of Banks in Bulgaria, and alumni of the American College and third-graders from 23 Secondary School Frederic Joliot Curie visited the bank's headquarters.

In 2017, Postbank joined the UN Global Compact Network Bulgaria to expand its initiatives in support of the society and the environment. Thus, the bank once again declared its willingness to pursue a corporate policy, which respects the ten universal principles for social responsibility and environmental protection of the Global Compact. The bank opened its doors for children in Sofia within the UN Global Compact's most recognizable initiative – Proud of my Parents' Work. Its goal is to present labour as a value and necessity. Through specially designed games and learning presentations, the children learn what makes the adults labour important and what it means to be a banker.

In June, Postbank was the main partner in the charity relay run Postbank Business Run, organized every year by Begach Club. It was joined by a record number of participants – 250 teams from 120 companies from various sectors, which competed in support of two causes. Thanks to the initiative the BGN 9,504 raised were donated for projects of Cedar Foundation to organize one-year occupational therapy for 15 children and young people with disabilities, and for a project of Water Way Foundation to provide a six-month water rehabilitation of 15 children with disabilities. Begach Sports Club awarded the financial institution a special prize for participating in Postbank Business Run 2017 with the highest number of teams in the Companies with 500+ Employees category for a second consecutive year.

The biggest regional corporate competition Business Run Plovdiv 2017, where Postbank is once again among the partners, took place for a first time in 2017. The BGN 2,500 raised from the participation fees were donated to Holiday Heroes Association and their initiative Love in Action with Holiday Heroes, which supports 28 socially



disadvantaged families in Plovdiv, and the Phoenix Centre for Psychological Counselling in support of children and their mothers, victims of domestic violence.

Postbank also invests in support of sport teams – the bank has been supporting the volleyball team of the town of Dobrich – Dobrudzha 07, since 2015. Postbank's soccer, basketball and table tennis teams performed well in the International Sports Workers' Festival in 2017, which brought the prestigious first place of the Bank's basketball team. The soccer team of the company also won the silver title in the 14th Business Leaders Olympiad.

Thanks to the Bank's support, the Bulgarian Czechs exhibition is now open in Sofia after its successful presentation in National Library of Prague. It was part of the programme of the 11th meeting of Bulgarian media, traditionally organized by the BTA.

Postbank is the only bank in Bulgaria, which has its own Green Board and an Environmental Office unit in its organizational structure, which are working to preserve the environment both through limiting the resources consumed by the Bank and through its financing activities. Moreover, the Board members organize different outdoor initiatives involving the other employees as well. The Bank invested in its own internal programme Green Together, which is developing with its own funds and is implementing through the voluntary work of its employees.

In 2017, the Bank created its latest internal initiative – Green Heroes, which will continue in 2018, as part of its overall policy for sustainable development and environmentally-friendly behaviour, and as a socially responsible institution. It is aimed at encouraging socially responsible behaviour in its employees. Through the campaign they can apply for funding from the bank to implement various local projects, which they chose themselves, and which show that simple actions could achieve sustainable changes. Within just a few months since the initiative was launched, six projects aimed at improving the state of the environment and supporting the society were launched. The overall realization of the internal initiative won Postbank the Greenest Bank in Bulgaria prize at the seventh b2b Media annual awards – The Greenest Companies of Bulgaria 2017.

Postbank's employees are also regular donors in the National Centre for Transfusion Haematology and take part in blood donation activities, organized and held in the head office.

Throughout the year, the bank continued its long-standing support and work with socially disadvantaged groups, stimulating their active role in society. It provided support to socially disadvantaged children in the town of Kazanlak, to the elderly people in Russe and the national campaign Easter for Everyone – Give a Holiday to Grandma and Grandpa, as well as many other small initiatives held throughout the year.

## AWARDS:

- *Deal of the Year Award* by Forbes Business Awards for the successful finalization of the acquisition of Alpha Bank – Bulgaria Branch business;
- *The Young Entrepreneur Award* for a company mentor at the XX International Fair of School Enterprises;
- Business award for *Quality* at the Third Annual Successful Business Awards of the Confederation of Employers and Industrials in Bulgaria;
- *Manager Magazine's special award* for the project Charger with a Heart in PR Prize 2017;
- *Corporate PR Campaign Award* in PR Prize 2017 for the campaign 25 Years Postbank, third place;
- *Green Communications and Urban Environment Award* in PR Prize 2017 for the Charger with a Heart campaign;
- First place in the *Greenest Bank* category in the seventh annual Greenest Companies in Bulgaria 2017 Awards of b2b Media;

- Special recognition by Begach Sport Club for participating with the highest number of teams in the category Campaign with 500+ Employees at Postbank Business Run 2017;
- *Dynamics of Development Award* in the annual awards of the Association Bank of the Year;
- *Business Development 2016 Award* by Western Union for the high quality of the services offered, the reported transaction growth and the increase of its market share and agents network;
- First place in the *New Service* category of BAAwards 2017 for the campaign More Today;
- *Gold Effie* for one of the bank's latest financial solutions – credit programme More Today;
- *Bronze Effie* for the innovative credit card Mastercard Cash, which allows the cardholders to withdraw cash interest free;
- Postbank was declared the most effective brand according to EFFIE Index Bulgaria 2017;
- Mrs. Petia Dimitrova, Chief Executive Officer and Chairperson of the Management Board of Postbank is holder of the *Banker of the Year 2017 Award* in the 24th annual awards, organized by Banker Weekly;
- High recognition from Global Custodian Magazine – leading magazine on capital markets, asset management and investment activities – top custodian in Bulgaria for sixth consecutive year;
- *Green Heart Award* in the Green Planet category for its Heroes in Green project in the Fourth Annual Charity and Corporate Social Responsibility Awards Golden Heart of Business Lady Magazine.



## SHARE CAPITAL STRUCTURE

As at 31 December, 2017 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

## MANAGEMENT BOARD

As at 31 of December, 2017 the Management Board consisted of the following members:

- Mrs. Petia Dimitrova – Chairperson of the Management Board and Chief Executive Officer;

- Mr. Dimitar Shoumarov – Member of the Management Board, Executive Director and Chief Financial Officer;
- Mr. Asen Yagodin – Member of the Management Board and Executive Director;
- Mr. Jordan Souvandjiev – Member of the Management Board and Chief Risk Officer.

## 1. The total annual remuneration of the members of the Management Board

In 2017 the members of the Management Board did not receive remunerations from the Bank in their capacity of Management Board members.

## 2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Management Board during the year

No member of the Management Board has owned or transferred shares or bonds of the Bank.

## 3. The Management Board members' rights to acquire shares and bonds of the company

No member of the Management Board holds special rights of acquisition of shares or bonds of the Bank.

## 4. The Management Board member's ownership in other commercial enterprises, as:

### 4.1. Partners with unlimited liability

No member of the Management Board has been a partner with unlimited liability in other commercial enterprise.

### 4.2. Partners/shareholders holding more than 25 per cent of the capital of another company

No member of the Management Board holds more than 25 per cent of the capital of another company.

### 4.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Mrs. Petia Dimitrova**

Association of Banks in Bulgaria, Bulgaria – Member of the Management Board;

Confederation of Employers & Industrialists in Bulgaria, Bulgaria – Member of the Management Board;

American University in Bulgaria, Bulgaria – Member of the Board of Trustees (until May 2017);

International Banking Institute OOD, Bulgaria – Member of the Management Board;

Endeavor Bulgaria, Association – Member of the Management Board (since October 2017);

Borica AD – Member of the Board of Directors;

Fondation „Atanas Burov“ – Member of the Management Board.

- **Mr. Dimitar Shoumarov**

Chief Financial Officers Club, Bulgaria – Member of the Management Board.

- **Mr. Asen Yagodin**

Bulgarian Stock Exchange – Sofia AD, Bulgaria – Chairman and Member of the Board of Directors;

Bulstrad Life Vienna Insurance Group JSC, Bulgaria – Independent Member of the Supervisory Board;

Sports Club DFS-Lokomotiv Sofia, Bulgaria – Member of the Board of Directors.

- **Mr. Jordan Souvandjiev**

IMO Property Investments Sofia EAD, Bulgaria – Deputy Chairman and Member of the Board of Directors and Executive Director;

IMO Central Office EAD, Bulgaria – Deputy Chairman and Member of the Board of Directors and Executive Director;

ERB Property Services Sofia AD, Bulgaria – Member of the Board of Directors;

Vinimpeks 21 AD, Bulgaria – Chairman and Member of the Board of Directors.

## 5. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2017.

## SUPERVISORY BOARD

As at 31 December 2017 the Supervisory Board consisted of the following members:

- Mr. Georgios Provopoulos – Chairman and Member of the Supervisory Board;
- Mr. Theodoros Karakasis – Deputy Chairman and Member of the Supervisory Board;
- Mr. Stavros Ioannou – Member of the Supervisory Board;
- Mr. Michalakis Louis – Member of the Supervisory Board;
- Mr. Anastasios Nikolaou – Member of the Supervisory Board;
- Mrs. Christina Theofilidi – Member of the Supervisory Board.

## 1. The total annual remuneration of the members of the Supervisory Board

In 2017 two members of the Supervisory Board received remunerations from the Bank in their capacity of Supervisory Board members (included in Note 29).

## 2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2017

No member of the Supervisory Board has owned or transferred shares or bonds of the Bank.

## 3. The Supervisory Board member's rights to acquire shares and bonds of the company

No member of the Supervisory Board holds special rights of acquisition of shares or bonds of the Bank.



#### 4. The Supervisory Board member's ownership in other commercial enterprises, as:

##### 4.1. Partners with unlimited liability

No member of the Supervisory Board has been a partner with unlimited liability in other commercial enterprise.

##### 4.2. Partners/shareholders holding more than 25 per cent of the capital of another company

None of the present members of the Supervisory Board has been a partner or shareholder holding more than 25 per cent of the capital of another company.

##### 4.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Mr. Georgios Provopoulos**

Eurobank Private Bank Luxembourg S.A. – Vice Chairman of the Board of Directors

- **Mr. Theodoros Karakasis**

Bancpost S.A., Romania – Deputy Chairman and Member of the Board of Directors;

ERB Retail Services IFN S.A., Romania – Member of the Board of Directors;

ERB Leasing IFN S.A., Romania – Member of the Board of Directors;

Eurobank Property Services S.A., Romania – Chairman and Member of the Board of Directors;

ERB Property Services d.o.o. Beograd, Serbia – Chairman and Member of the Supervisory Board;

Eurobank A.D. Beograd, Serbia – Vice Chairman and Member of the Management Board;

ERB Property Services Sofia A.D., Bulgaria – Chairman and Member of the Board of Directors;

Bulgarian Retail Services A.D., Bulgaria – Chairman and Member of the Board of Directors;

CEH Balkan Holdings Limited, Cyprus – Member of the Board of Directors;

Greek-Serbian Chamber of Commerce – Deputy Chairman and Member of the Board of Directors.

- **Mr. Stavros Ioannou**

Eurobank Ergasias S.A., Greece – Deputy Chief Executive Officer, Group Chief Operating Officer & International Activities, Member of the Executive Board, Member of the Strategic Planning Committee;

Eurobank Business Services S.A., Greece – Deputy Chairman and Member of the Board of Directors (until 21.4.2017);

Be – Business Exchanges S.A., Greece – Chairman and Member of the Board of Directors;

Eurobank Property Services S.A., Greece – Member of the Board of Directors;

Eurobank A.D. Beograd, Serbia – Member of the Management Board;

Eurobank Cyprus Ltd, Cyprus – Member of the Board of Directors;

Grivalia Properties R.E.I.C, Greece – Member of the Board of Directors (since 2.5.2017).

- **Mr. Michalakis Louis**

Eurobank Ergasias S.A., Greece – Head of International Activities General Division, Member of the Executive Board;

Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors;

Bancpost S.A., Romania - Member of the Board of Directors;

Eurobank a.d. Beograd, Serbia – Chairman and Member of the Management Board;

CEH Balkan Holdings Limited, Cyprus - Member of the Board of Directors;

Eurobank Cyprus Ltd, Cyprus – Chief Executive Officer and Member of the Board of Directors;

NEU Property Holdings Limited, Cyprus – Chairman of the Board of Directors;

NEU II Property Holdings Limited, Cyprus – Chairman of the Board of Directors;

NEU BG Central Office Limited, Cyprus – Chairman and Member of the Board of Directors;

NEU 03 Property Holdings Limited, Cyprus – Chairman and Member of the Board of Directors;

ERB New Europe Funding III Limited, Cyprus – Chairman and Member of the Board of Directors.

- **Mr. Anastasios Nikolaou**

Eurobank A.D. Beograd, Serbia – Member of the Management Board.

- **Mrs. Christina Theofilidi**

Eurobank Ergasias S.A., Greece – General Manager Individual Banking and Member of the Executive Board;

Eurobank Household Lending S.A., Greece – Chief Executive Officer, Vice Chairman and Member of the Board of Directors;

ERB Retail Services IFN S.A., Romania – Member of the Board of Directors;

Tiresias Bank Information Systems S.A., Greece – Member of the Board of Directors;

Greek Alumni Association of the European Institute of Business Administration (INSEAD) - Member of the Board of Directors.

#### 5. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commercial Act during 2017.

## BANK STRUCTURE

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2017 and therefore no consolidated financial statements are prepared at this entity level. The Bank employs 2,600 people (2016: 2,640).

## OBJECTIVES FOR 2018

In 2018 the main objectives of the Bank will be to improve further its profitability, achieve a balanced expansion of the lending portfolio, reduce the nonperforming exposures and increase and enhance the sources of income.

The Bank will aim to achieve a balanced growth of its lending portfolio in all client segments, funded by a reciprocal increase of its deposit base, keeping its liquidity buffers intact. The capital adequacy ratio will be kept at a level high enough to ensure that Eurobank Bulgaria can withstand any significant macroeconomic shocks. With opportunities for further reduction of the interest rates on deposits limited, the Bank will focus more on profitability and maintaining interest margins rather than expanding market share in the highly competitive environment. Throughout the year, the effects from the introduction of IFRS 9 will be constantly evaluated and reflected in the pricing mechanisms.

The Bank will continue implementing its strategy for reduction of the nonperforming exposures through collection, portfolio sales and long-term restructuring programs. The Bank will expand its noninterest income by enhancing the transactional business and achieving a higher level of cross selling activities. Costs will be kept under control, however, new investments have been planned for innovation and digital transformation. Branch network will be expanded with new sales centers under the new Momento brand.

The long-term strategy of the Bank remains unchanged - to be the Bank of first choice for its customers. The digital transformation of the banking business is ongoing and this trend will be in the focus of the Bank's strategy in the next years as it will allow for a flawless customer service through multiple channels, something that clients require and expect. The Bank will continue to provide the most innovative and suitable products and quality services while meeting the constantly evolving expectations of the customers thus creating value for them and the shareholders.

## MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the company as at the year end and its financial results. The management has prepared the enclosed financial statements in accordance with IFRS.

The Directors confirm that suitable accounting policies have been used.

The Directors also confirm that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.



**Petia Dimitrova**

Chairperson of the Management Board and Chief Executive Officer

30 March 2018  
Sofia, Bulgaria



**Dimitar Shoumarov**

Member of the Management Board, Executive Director and Chief Financial Officer

## SELECTED REPORTING DATA

## INCOME STATEMENT

	Notes	Year ended 31 December	
		2017	2016
Interest and similar income		298,316	305,241
Interest and similar charges		(14,114)	(31,726)
<b>Net interest income</b>	<b>1</b>	<b>284,202</b>	<b>273,515</b>
Fee and commission income		94,071	84,244
Fee and commission expense		(13,751)	(14,149)
<b>Net fee and commission income</b>	<b>2</b>	<b>80,320</b>	<b>70,095</b>
Dividend income		1,715	663
Other operating income	3	8	11,486
Reposessed assets impairment	W.1.6.	(518)	(754)
Net trading expense	4	(1,440)	(127)
Gains less losses from trading securities	12	374	863
Gains less losses from investment securities	14	6,511	10,942
Other operating expenses	5	(131,635)	(147,327)
Deposit Insurance Fund expense		(18,774)	(15,572)
Impairment charge for credit losses	7	(69,663)	(69,755)
<b>Profit before income tax</b>		<b>151,100</b>	<b>134,029</b>
Income tax expense	8	(14,459)	(9,435)
<b>Profit for the year</b>		<b>136,265</b>	<b>119,570</b>



The Financial statements were authorized by the management on 30 March 2018.



**Petia Dimitrova**  
Chairperson of the Management Board and  
Chief Executive Officer

Initialed for identification purposes in reference to the auditor's report.  
For PricewaterhouseCoopers Audit OOD:



**Anna Boteva**  
Registered Auditor



**Jock Nunan**  
PricewaterhouseCoopers Audit OOD  
Date: 03-04-2018



**Dimitar Shoumarov**  
Member of the Management Board,  
Executive Director and Chief Financial Officer

For Moore Stephens Bulgaria - Audit OOD



**Stefan Nenov**  
Registered Auditor



**Stefan Nenov**  
Moore Stephens Bulgaria - Audit OOD  
Date: 03-04-2018

STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December		
	Notes	2017	2016
<b>Profit for the year</b>		<b>136,265</b>	<b>119,570</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		<b>11,768</b>	<b>6,158</b>
Available for sale securities			
- net changes in FV, net of tax	9	12,407	9,939
- transfer of (profit)/ loss to net profit on sale	9	(639)	(3,781)
<b>Items that will not be reclassified to profit or loss:</b>		<b>(757)</b>	<b>503</b>
Change in FV of property, plant and equipment, net of tax		-	(78)
Remeasurements of post-employment benefit obligations, net of tax		(757)	581
<b>Other comprehensive income for the year</b>	<b>9</b>	<b>11,011</b>	<b>6,661</b>
<b>Total comprehensive income for the year</b>		<b>147,276</b>	<b>126,231</b>

The Financial statements were authorized by the management on 30 March 2018.



**Petia Dimitrova**  
Chairperson of the Management Board and  
Chief Executive Officer

Initialed for identification purposes in reference to the auditor's report.  
For PricewaterhouseCoopers Audit OOD:



**Anna Boteva**  
Registered Auditor



**Jock Nunan**  
PricewaterhouseCoopers Audit OOD  
Date: 03-04-2018



**Dimitar Shoumarov**  
Member of the Management Board,  
Executive Director and Chief Financial Officer

For Moore Stephens Bulgaria - Audit OOD



**Stefan Nenov**  
Registered Auditor



**Stefan Nenov**  
Moore Stephens Bulgaria - Audit OOD  
Date: 03-04-2018

## BALANCE SHEET

	Notes	As at 31 December	
		2017	2016
<b>Assets</b>			
Cash and balances with the Central Bank	10	742,389	720,423
Loans and advances to banks	11	1,264,068	1,166,309
Financial assets held for trading	12	14,226	2,438
Loans and advances to customers	13	4,828,632	4,214,400
Investment securities	14	459,409	608,051
Derivative financial instruments	20	241	586
Investment property	15	406	678
Property, plant and equipment	16	40,602	41,000
Intangible assets	17	46,254	39,542
Other assets	18	24,755	24,835
<b>Total assets</b>		<b>7,420,982</b>	<b>6,818,262</b>
<b>Liabilities</b>			
Deposits from banks	19	9,025	21,171
Derivative financial instruments	20	7,793	6,693
Due to customers	21	6,080,217	5,524,333
Other borrowed funds	22	30,420	78,959
Deferred income tax liabilities	23	1,776	2,243
Current income tax payable		1,526	2,172
Provisions for other liabilities and charges	24	7,410	10,483
Retirement benefit and other obligations	25	5,059	3,886
Other liabilities	26	41,169	20,337
<b>Total liabilities</b>		<b>6,184,395</b>	<b>5,670,277</b>
<b>Shareholders' equity</b>			
Share capital	27	560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves, net		393,743	305,141
<b>Total shareholders' equity</b>		<b>1,236,587</b>	<b>1,147,985</b>
<b>Total shareholders' equity and liabilities</b>		<b>7,420,982</b>	<b>6,818,262</b>

The Financial statements were authorized by the management on 30 March 2018.



**Petia Dimitrova**  
Chairperson of the Management Board and  
Chief Executive Officer



**Dimitar Shoumarov**  
Member of the Management Board,  
Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report.  
For PricewaterhouseCoopers Audit OOD:

For Moore Stephens Bulgaria - Audit OOD



**Anna Boteva**  
Registered Auditor



**Stefan Nenov**  
Registered Auditor



**Jock Nunan**  
PricewaterhouseCoopers Audit OOD  
Date: 03-04-2018



**Stefan Nenov**  
Moore Stephens Bulgaria - Audit OOD  
Date: 03-04-2018



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve	Statutory Reserves	Retained earnings and other reserves	Total
<b>Balance at 1 January 2016</b>	<b>452,753</b>	<b>1,798</b>	<b>13,126</b>	<b>282,521</b>	<b>163,986</b>	<b>914,184</b>
Net gain recognised directly in OCI	-	-	6,158	-	-	<b>6,158</b>
Impairment of property, plant and equipment	-	(78)	-	-	-	<b>(78)</b>
Remeasurement on post-employment benefit obligations	-	-	-	-	581	<b>581</b>
Profit for the year	-	-	-	-	119,570	<b>119,570</b>
<b>Total comprehensive income for the year 2016</b>	<b>-</b>	<b>(78)</b>	<b>6,158</b>	<b>-</b>	<b>120,151</b>	<b>126,231</b>
Issue of share capital	107,570	-	-	-	-	<b>107 570</b>
Transfer to retained earnings	-	(8)	-	-	8	-
<b>Balance at 31 December 2016</b>	<b>560,323</b>	<b>1,712</b>	<b>19,284</b>	<b>282,521</b>	<b>284,145</b>	<b>1,147,985</b>

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve	Statutory Reserves	Retained earnings and other reserves	Total
<b>Balance at 1 January 2017</b>	<b>560,323</b>	<b>1,712</b>	<b>19,284</b>	<b>282,521</b>	<b>284,145</b>	<b>1,147,985</b>
Net gain recognised directly in OCI	-	-	11,768	-	-	<b>11,768</b>
Remeasurement on post-employment benefit obligations	-	-	-	-	(757)	<b>(757)</b>
Profit for the year	-	-	-	-	136,265	<b>136,265</b>
<b>Total comprehensive income for the year 2017</b>	<b>-</b>	<b>-</b>	<b>11,768</b>	<b>-</b>	<b>135,508</b>	<b>147,276</b>
Dividend paid	-	-	-	-	(58,674)	<b>(58,674)</b>
Transfer to retained earnings	-	(653)	-	-	653	-
<b>Balance at 31 December 2017</b>	<b>560,323</b>	<b>1,059</b>	<b>31,052</b>	<b>282,521</b>	<b>361,632</b>	<b>1,236,587</b>

The Financial statements were authorized by the management on 30 March 2018.



**Petia Dimitrova**  
Chairperson of the Management Board and Chief Executive Officer



**Dimitar Shoumarov**  
Member of the Management Board, Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report.  
For PricewaterhouseCoopers Audit OOD:

For Moore Stephens Bulgaria - Audit OOD



**Anna Boteva**  
Registered Auditor



**Stefan Nenov**  
Registered Auditor



**Jock Nunan**  
PricewaterhouseCoopers Audit OOD

Date: 03-04-2018



**Stefan Nenov**  
Moore Stephens Bulgaria - Audit OOD

Date: 03-04-2018

## STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2017	2016
<b>Cash flow from operating activities</b>		
Interest received	310,652	303,842
Interest paid	(16,318)	(34,984)
Dividends received	1,715	663
Fees and commission received	94,500	84,582
Fees and commission paid	(12,770)	(13,255)
Amounts paid to and on behalf of employees	(64,459)	(65,842)
Net trading and other income received	7,372	19,815
Other operating expenses paid	(77,417)	(82,005)
Tax paid	(15,000)	(13,495)
<b>Cash from operating activities before changes in operating assets and liabilities</b>	<b>228,275</b>	<b>199,321</b>
<b>Changes in operating assets and liabilities</b>		
Net (increase) in reserve with the Central Bank	(21,607)	(46,054)
Net (increase)/decrease in trading securities	(11,771)	8,858
Net (increase)/decrease in loans and advances to customers	(696,117)	125,776
Net decrease/(increase) in other assets	4,468	(1,674)
Net increase in derivatives instruments	2,865	1,269
Net (decrease)/increase in due to other banks	(12,146)	1,316
Net increase in amounts due to customers	557,399	370,184
Net increase/(decrease) in other liabilities	10,929	(23,855)
<b>Net cash flow from operating activities</b>	<b>62,295</b>	<b>635,141</b>
<b>Cash flow from investing activities</b>		
Payment for acquisition of subsidiary, net of cash acquired	-	136,657
Purchase of property ,equipment and intangible assets (Note 16&17)	(18,090)	(16,983)
Purchase of investment securities	(68,348)	(67,394)
Proceeds on disposal of property and equipment	21	393
Proceeds from sale of investment securities	228,100	36,841
<b>Net cash flow from investing activities</b>	<b>141,683</b>	<b>89,514</b>
<b>Cash flow from financing activities</b>		
Dividend paid	(58,674)	-
Long-term financing received	-	32,271
Long-term debt repaid	(48,514)	(113,934)
<b>Net cash used in financing activities</b>	<b>(107,188)</b>	<b>(81,663)</b>
Effect of exchange rate changes on cash and cash equivalents	1,328	173
<b>Net change in cash and cash equivalents</b>	<b>98,118</b>	<b>643,165</b>
Cash and cash equivalents at beginning of year	1,637,769	994,604
<b>Cash and cash equivalents at end of year (Note 28)</b>	<b>1,735,887</b>	<b>1,637,769</b>

The Financial statements were authorized by the management on 30 March 2018.



**Petia Dimitrova**  
Chairperson of the Management Board and  
Chief Executive Officer



**Dimitar Shoumarov**  
Member of the Management Board,  
Executive Director and Chief Financial Officer

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Date: 03-04-2018



**Stefan Nenov**  
Moore Stephens Bulgaria - Audit OOD

Date: 03-04-2018





# CONTRIBUTION TO SUSTAINABILITY

EVERY ACCOMPLISHMENT

is just the first step to the next one.



## LETTER TO STAKEHOLDERS



**Dear readers,**

It is a pleasure to greet you from the pages of Postbank's Financial and Sustainability Report 2017, as we account for a really successful year for the Bank. We would like to thank all of you – our clients, employees and business partners for your participation and contribution to the changes we are implementing together, such as the development of innovative products, modern banking channels and a wide branch network of specialized centres, as well as for your commitment to achieving sustainable development. With this letter, we would like to present to you the positive overview of our team's achievements throughout the year, considered from a broader economic, environmental and social perspective.

For 27 years now, we have been reinforcing our view that our successful business growth is strongly related also to projects, aimed at the development of the social environment the Bank operates in. On the following pages, you can read more about the main strands we are focusing our efforts on in order to achieve long-term sustainable growth through efficient corporate management, observance to all legal rules and taking full responsibility for our products and services. For us this means putting our clients first, creating motivating working environment, increasing the opportunities for career development and engaging our employees in projects supporting the community, and, at the same time guaranteeing that these steps contribute to boosting the economic and financial stability of the company and the community.

### **Sustainable benefits for our clients and partners**

Our long-term strategy has remained the same – first and foremost, we strive to be the preferred bank of our clients, providing them with modern products, excellent servicing and financial solutions, customized to their specific needs. Led by this goal, we have developed bank products, which are unique for the Bulgarian market, such as Super @account and the More Today credit programme. We also established the modern centres for express lending Momento and launched the convenient service Bankers at Your Side in order to be closer to our clients. We focus on the new trends in banking and digital innovations, which provide added value to our clients. Their confidence is the best assessment of our work and a proof that we are developing in the right direction.

### **Development of employees**

Postbank's team has always been and will be the real driving force of the Bank's innovations and strong results, as well as our most valuable resource. This is why, in 2017, we developed a comprehensive strategy,

including various activities to improve the working environment, the successful management, the opportunities for career development and the involvement of our employees in projects and campaigns, aimed at improving the environment and at supporting the community. We encourage the sense of initiative, creativity and the desire of every employee to become a part of the Bank's change and growth. The Bank prioritizes the investment in professionally trained employees, who can competently assist and consult customers, and create products which are new for the market. We demonstrated we are a strong and united team in 2017 as well. We are glad Postbank received the prestigious award Employer of the Year 2017 in the first annual Employer Branding Awards, organized by *b2b Media*.

### **Care for the environment and the community**

We continued being very active in the area of corporate social responsibility, implementing numerous socially significant projects in the sphere of education, environmental conservation, sport and corporate donation. We implemented many own initiatives and supported programmes of established institutions and organizations as their long-term partner. The events include the charity relay run Postbank Business Run, the internal programme Green Together with Postbank, the latest internal initiative Green Heroes, the participation in the most recognizable project of UN Global Compact Network Bulgaria – Proud of my Parents' Work, the partnership with the American University in Bulgaria and the National Trade and Banking High School. Our social responsibility projects were awarded in the country's most prestigious contests. In addition, the care for the environment is not just a part of the business model with which we are striving to save natural resources and leave a smaller environmental footprint, but it has already merged with the personal causes of many of our employees. With their ideas and enthusiasm, they make our mission as a corporate citizen even more significant. We hope other companies will follow the example we are setting.

On the following pages you can read more about all the components of our contribution to creating sustainable benefits for our clients, partners and the community. We will continue working in 2018 like we have done by now – with consideration for the people working in the company and care for our customers, the community and nature.

*Sincerely,*

**Dimitar Shoumarov**  
Executive Director,  
Chief Financial Officer and  
Member of the Management Board

**Asen Yagodin**  
Executive Director and  
Member of the Management Board



## GUIDING PRINCIPLES AND BELIEVES

Some of the main components of Postbank's corporate responsibility policy include constant efforts in improving the economic environment through holding an open dialogue with stakeholders, as well as the Bank's active contribution to society. The Bank's corporate responsibility policy is built on four main pillars:

- A dialogue with the Bank's stakeholders through actions and initiatives aimed at identifying issues and providing suitable solutions;
- Improvement of corporate governance to ensure the organization's transparency;
- Social contribution to activities of key importance to local communities;
- Environmental protection, combatting global warming and contribution to sustainable growth.

## MISSION, VISION AND VALUES

### Our mission

We are a leading, dynamically developing bank, where the personal qualities of all employees are valued and their professional development is encouraged. We share the dreams of our clients and we see our success in the success of the people and businesses we support. We believe in our clients and work with them to find the best personal solutions – solutions for their tomorrow.

### Our vision

We aspire to be the most reliable, accessible and innovative financial organization in Bulgaria – preferred employer and partner of our clients every step of the way.

### Our values



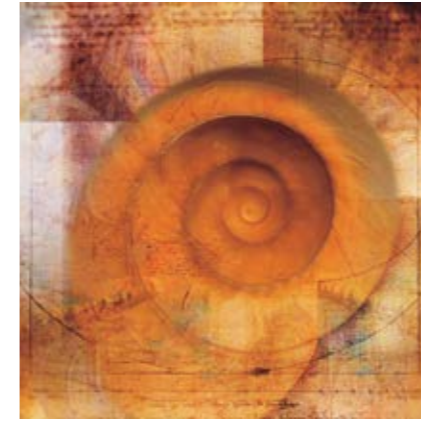
#### MERITOCRACY

Equal opportunities for distinction.



#### RESPECT

... to the colleague, to the customer, to our fellow citizen.



#### QUALITY

We aim at excellence in everything we do.



#### TRUST

When it exists, we achieve the impossible.



#### EFFECTIVENESS

We always strive to accomplish the goals we set.



#### TEAMWORK

We succeed when we work together.



#### SOCIAL CONTRIBUTION

Our social contribution goes hand in hand with our business activity.



#### CREATIVITY

We innovate continuously, in an effort to always improve our business and ourselves.

## Open and transparent relations

Some of Postbank's main priorities are to continue improving its sustainable development and corporate social responsibility policies, taking into account the expectations of the people and organizations it works with. To achieve this objective, the Bank has set up channels for a dialogue with its stakeholders in order to facilitate the transparent and continuous communication with all interested parties. Thus, Postbank's partners and clients can always rely on a communication channel which ensures that their opinion reaches the Bank.

The stakeholders can use the following channels to exchange information with Postbank:

### Clients

- One of the largest branch networks across the country;
- Specialized business centres – Small Business Banking, Mortgage Lending and Personal banking;
- Ten business centres servicing medium and large corporate customers;
- Modern alternative channels for servicing and communication with customers;
- Client Relations department;
- 24/7 Customer service centre available via tel. 0700 18 555, short code \*7224 and Skype voice calls at postbank.bg (Postbank Bulgaria);
- Webpage: [www.postbank.bg](http://www.postbank.bg);
- Press Office: <http://mediacenter.postbank.bg/>;
- Monthly newspaper, *Bankovi Istorii* (Bank Stories) with circulation of 15,000 copies, distributed via the Bank's Head Office and branches;
- Postbank's profiles on social media such as Facebook, LinkedIn, Google+, YouTube;
- Head office on 260 Okolovrasten Pat Street, 1766 Sofia;
- Meetings with the Bank's representatives.

### Shareholders and investors

- General Meeting of Shareholders;
- Scheduled meetings;
- A notification system for regulated information;
- Press Office: <http://mediacenter.postbank.bg/>.

### Personnel

- Human Resources Division;
- Regular meetings;

- Annual meeting of the Bank;
- Annual performance attestation;
- Internal project aimed at encouraging green practices – Green Together with Postbank;
- Monthly newspaper, *Bankovi Istorii* (Bank Stories) with circulation of 15,000 copies, distributed via the Bank's Head Office and branches;
- Notifications to the personnel;
- Intranet (Help Desk);
- Weekly electronic news bulletin;
- Contribution to sustainable development;
- Internal contest, called Ideino (Good Ideas), which is aimed at encouraging employees' ideas and proposals for improving the work.

### Suppliers

- Contacts with Contractors;
- Committees on supplier selection.

### Community and environment

- Environmental Office;
- Social and environmental projects;
- Participation in forums, seminars, conferences and round-table meetings on these topics;
- Contacts with specialized bodies and institutions;
- Cooperation with social agencies;
- Media coverage of these topics.

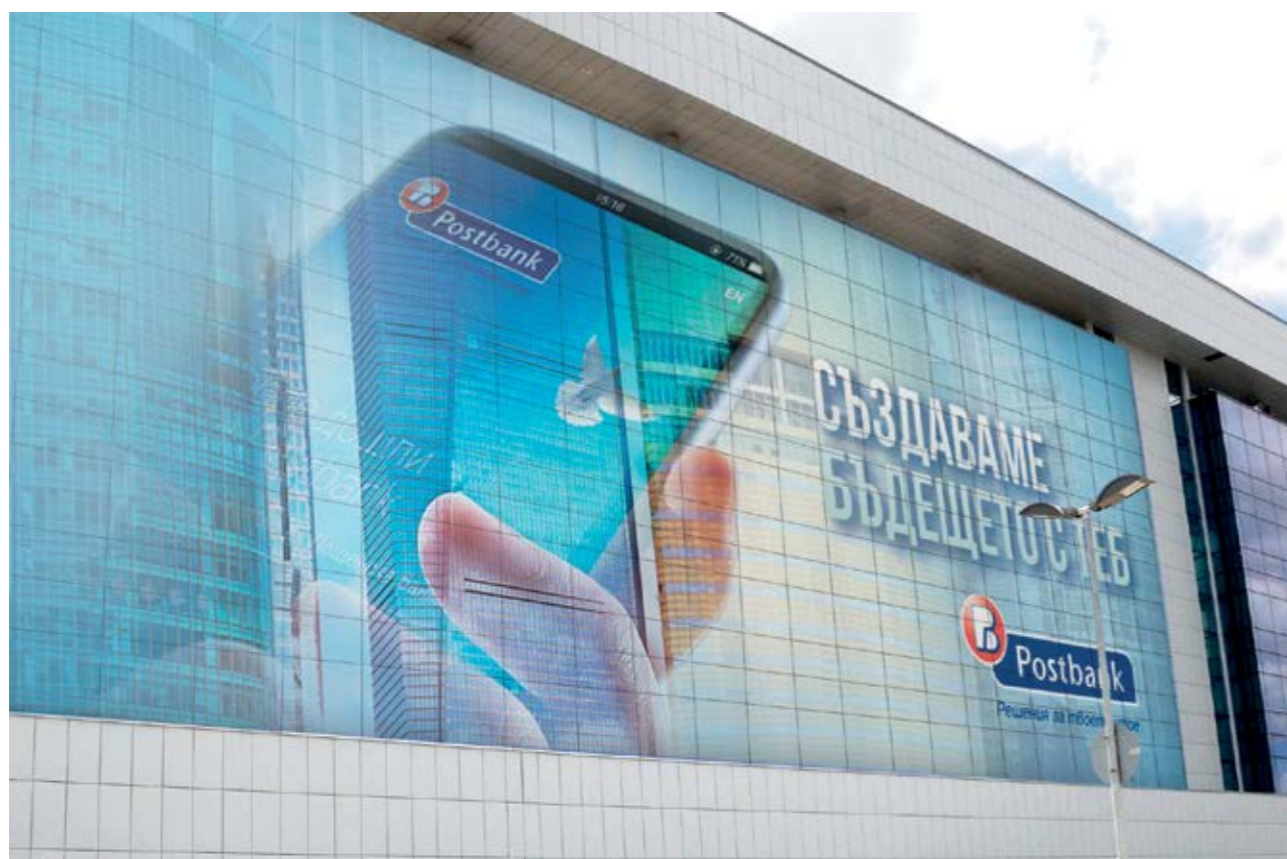


## ECONOMIC CONTRIBUTION

### CONTRIBUTION TO ECONOMIC GROWTH

Postbank sees contributing to Bulgaria's economic development as a key priority in achieving sustainability. The extent of the Bank's corporate responsibility is determined by the scope of its operations and the proper and fair distribution of capital among its different stakeholders, while securing its stable economic position and investment opportunities, development of human capital and technological innovations.

In addition to the fair distribution of capital, Postbank strives to support the Bulgarian economy by adhering strictly to centralized procedures for managing procurements, ensuring the top quality of supplies, containing costs and promoting the best social practices. Postbank follows a unified policy of selection of suppliers, based on strategic synergies and mutually beneficial relations. The procedures for selection and evaluation of suppliers are regulated by complete transparency at all stages and by objective criteria such as good prices, regular deliveries and successful cooperation in the past. Moreover, in the selection of suppliers, the Bank aims at ensuring complete respect of human rights in those companies, as well as consistent application of environmentally friendly practices aimed at constant reduction of energy consumption. Recognizing the need for support to local economies, in 2017 Postbank preferred to work with local suppliers in selected categories of goods and services. The Bank works with a large network of local partners, accounting for around 90% of all its suppliers.



## CREATED DIRECT ECONOMIC VALUE

### SOCIAL PRODUCT

THE CONTRIBUTION OF THE BANK TO THE "SOCIAL PRODUCT"	PUBLISHED RESULTS 2017		PUBLISHED RESULTS 2016	
	BGN MIO	EUR MIO	BGN MIO	EUR MIO
Turnover	393	201	402	205
Interest Expense and Fees & Commissions expense	-28	-14	-46	-23
VAT on Added Value of the Bank	-3	-2	-5	-2
Impairment losses	-70	-36	-70	-36
<b>Social Product</b>	<b>292</b>	<b>149</b>	<b>281</b>	<b>144</b>

### THE "SOCIAL PRODUCT" AND ITS DISTRIBUTION

<b>I. Personnel</b>	<b>56</b>	<b>29</b>	<b>55</b>	<b>28</b>
Gross Pay	72	37	69	35
Employer contribution to social security institutions	3	2	3	1
Medical, Retirement and other benefits	1	0	1	1
Contribution to Social Security Institutions (Employer and Employees)	-14	-7	-13	-7
Employees tax	-5	-2	-5	-2
<b>II. Suppliers of Goods &amp; Services</b>	<b>43</b>	<b>22</b>	<b>54</b>	<b>28</b>
<b>III. Donations and sponsorships</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IV. State</b>	<b>56</b>	<b>29</b>	<b>53</b>	<b>27</b>
Income Tax and various taxes	15	8	14	7
Value added taxes	3	2	5	2
Deposit Guarantee and Investors compensation schemes	19	10	16	8
Contribution to Social Security Institutions (Employer and Employees)	14	7	13	7
Employees tax	5	2	5	2
<b>V. Company</b>	<b>136</b>	<b>70</b>	<b>120</b>	<b>61</b>
Retained earnings/reserve	136	70	120	61
<b>Social product</b>	<b>292</b>	<b>149</b>	<b>281</b>	<b>144</b>

## CUSTOMER SATISFACTION

The investments made by Postbank are not an end in itself. The Bank's considerable and constant efforts are focused on providing modern banking systems and solutions, which are secure, reliable and, at the same time, easy to use. That ensures a top position of the Bank among the most technologically advanced institutions in the financial sector and a preferred and recognizable brand on the market.

The strategy the Management accepted to follow is based on two key factors – the expectations of potential customers and the satisfaction of the existing ones. Postbank has 24/7 connection with its customers and continues investing in an own modern service system. Once again, that distinguishes it from its competitors and many other companies on the Bulgarian market, which prefer to use external service providers. It is a priority for the Bank to invest in professionally trained employees, who are competent to solve immediately any case, to assist and consult the Bank's customers.

In addition to the customer relations departments, Postbank has a special unit – Service Quality and Lean Management, whose operations are entirely focused on improving the management processes and the provision of excellent service to the customers in any segment.

A team of the Customer Relations Department is working in the Bank's structure to improve the customer signal management process. The team monitors and responds to the signals received. The average response time in 2017 was up to 4 days.

Postbank traditionally performs mystery shopper surveys and regularly achieves good results. These surveys are used as feedback and a valuable instrument in improving customer service management.

Postbank also traditionally conducts research to compare Postbank to other commercial banks on the market, which are specifically focused on products offered by the Bank and on consumer satisfaction. The results confirm that the Bank maintained its position as a leading and preferred credit institution among clients.

The regular surveys are a proof that Postbank applies high customer service standards and further help outline the strategy making the Bank customers' first choice.

The Bank's team reported increasing levels of customer satisfaction, measured by the following specific projects:

- Staff training in the branch network on Everyday Challenges in Customer Service – Establishing a Gold Standard;
- Online customer service training focusing on the specific customer expectations and developing employees' professional skills;
- Issuing a manual for the front office staff, entitled *Golden Rules for Customer Service at Postbank*;
- Organized and conducted mystery shopper surveys;
- Developing additional modern channels for two-way customer communication through the Bank's presence on the social networks Facebook, LinkedIn, Google+, YouTube.

A few years ago, the Bank's team stated its strong desire to link the organization's main mission of being customers' trusted and preferred financial partner throughout their lives with a new vision that would express the confidence that Postbank is an institution with responsible attitude towards the future of its customers, partners, employees and the society in general. To give meaning to the new vision and turn it into a reality, the team created Postbank Customer Charter – a system of ten moral principles that all employees should follow and apply in their everyday communication with customers. The document expresses the personal commitment and responsibility in customer service in a way that best protects their financial interests and welfare.

## RESPONSIBLE CONDUCT AND PRODUCT LIABILITY

The Bank carefully ensures that its structure and processes meet both the external and internal requirements for responsible, accountable and sustainable activities.

Compliance with regulations and laws, as well as transparent reporting to the shareholders and other involved parties form the basis of the Bank's responsibility.

### Prevention of Money Laundering and Terrorism Financing

To avoid the involvement of the Bank in any money laundering or terrorism financing activities and operations, we aim to ensure that every bank operation observes the relevant policy, the requirements of the relevant national and international institutions, and the Internal Rules for Control and Prevention of Money Laundering and Terrorism Financing. The policy includes the requirement to identify and monitor the accounts of what are known as "politically exposed" customers or persons affiliated with them.

Unfortunately, 2017 was marked by a number of terror attacks around the world, which took the lives of innocent people. In these days of fear of terror which has settled in the minds of modern communities, the measures applied by the Bank to prevent the use of the financial system for the purpose of terrorist financing are becoming critical. The continuous refugee influx, which started with the outburst of military conflicts in the Middle East, and the illegal economic immigration to the EU pose a threat because it is associated with actions involving money laundering and terrorism financing.

### Sanctions

Sanctions are official restrictions on the activities of specific countries, individuals, organisations and industries, which are prepared to prevent proliferation of weapons and to tackle organised crime and terrorism. The Bank maintains systems and controls to comply with all financial sanctions and export controls. There were no major changes in the existing sanctions in 2017.

### Personal Data Protection

The safeguarding of the customers' personal data is of great significance for Postbank.

With the then forthcoming application of the General Data Protection Regulation as of May 2018, the Bank commenced its preparation for the changes by appointing a data protection officer and starting an institution-wide project for ensuring its compliance with the GDPR. The new rules were accepted as an opportunity for Postbank to strengthen the relationship with its clients and confirm the Bank's commitment to complying with the legislation. The Bank's aim is to adhere to transparent and responsible processing of its clients' personal data.

In 2017, the Commission for Personal Data Protection reviewed three complaints against Postbank and none of them was considered justified. All of customers' requests regarding processing of personal data received exhaustive replies and the Bank took the respective actions when the cases required such.

### Fraud and Corruption Prevention

Prevention of fraud and corruption ensures that Postbank is seen as a reliable and trustworthy partner in all of its business activities. Compliance Division and Operational Risk Department work in close relation with the IT professionals at the Bank to ensure effective and efficient ways for prevention and early detection of fraud.



The Bank maintains high ethical and moral standards, and takes measures for prevention of abuse, be it external or internal, and of any other violations of rules, standards or authorities. The Bank's Management are committed to providing the relevant means for combating abuses. The Bank requires that its staff work always diligently and protect the assets and resources they are responsible for. The Bank requires from its employees to report each case of abuse or reasonable suspicion of abuse.

## Code of Conduct

The Code of Conduct is an internal document that is being applied in addition to the requirements of the legal framework and aims at setting minimum common internal rules and principles of professional conduct and ethical behaviour which must be followed by the Bank's staff when performing their duties.

Its purpose is to develop and establish the standards of conduct and professional ethics, which have been an integral part of the culture and values of the Bank throughout its course of development over the years. The document contains provisions of a general and specialized nature, which are in accordance with the legislative and regulatory framework the Bank operates in line with, as well as with globally-recognized standards of banking conduct.

All employees at Postbank are trained in the anti-corruption policies of the organization. Throughout the year, all staff trainings included a presentation of the Compliance Division dealing with the issues described above. The induction programmes for new recruits include sessions reviewing the Code of Conduct and the fraud response policy.

## Audits by Regulators

The Bank's responsible conduct is also best guaranteed by the fact that it is subject to audits by a number of state authorities.

## Advertising and Promotion

Postbank's responsible and transparent conduct is a key element of all marketing and advertising activities. Being a modern and client-oriented commercial bank working with private individuals, companies and institutions, Postbank adheres to clear and honest communication with all stakeholders regarding its product offers and promotions.

The Bank's product communication was focused on promoting consumer loans in 2017. Postbank's effective advertising campaigns helped one of the most successful products of the year – the More Today debt consolidation programme – penetrated the market, positioned successfully the convenient cash advance credit card Mastercard Cash and helped successfully launch Postbank's first express lending centres.

Debt consolidation loans were among the most actively communicated and promoted products in the entire banking sector in 2017. Postbank followed the trend and offered its clients a product with a great advantage launching a distinctive communication campaign under the motto More Today. The advantage of the More Today programme is the lower single instalment for all loans. In order to direct the attention of all consumer groups to the offer, the Bank undertook an



emotional, but practical approach with the following advertising message: "When your income is lower than your expenses, finding a second job seems the only "emergency" solution. Unless you have heard about our programme!" The message was conveyed by short stories, distributed via several channels – television, Internet, OOH advertising, radio. The result – an over 600% increase in new debt consolidation loans.

The other decisive step in retail lending was the set-up of express lending centres which focus on the functional advantage of fast loans but also offer the security guaranteed by our reputable bank institution. *Momento* credit centres turned into a successful business brand with own target group thanks to the clear and active communication campaign, as well as the selection of strategic locations. The brand continues developing, attracting new target groups different from the Bank's usual customers.

The attraction of a new, different segment was the goal of another product – our new credit card which adds the convenient cash advance functionality to the advantages of credit cards. Mastercard Cash is designed for consumers using credit cards as a substitute for fast and easy loans. To reach a wider audience, including people who do not use credit cards, the bank communication included a story referring to "cash withdrawal" as a national trait with all of its comic nuances. Thus, various groups of clients could recognize themselves in the story. We achieved a 140% increase in the applications for Mastercard Cash credit cards thanks to the clever use of conventional media.

Using the data of surveys and analyses of consumer sentiments, the Bank launched new solutions in 2017 in the most sensitive segments. We communicated a new category – Structured Deposits – as an alternative to standard deposits with minimum profit. Thus, our clients could combine the security of deposits and the opportunity for income from indirect investments. Our campaigns strengthened the position of the INDEX deposit, which is tied to the STOXX Europe 600 Health Care index and EVEREST insurance programme. The latter combines a life insurance and an investment product.

In 2017, our work was focused on another product for everyday use – a payroll account, called Super @ccount. It provides the convenience of online payment, which creates another convenience – BGN 0 monthly fee and an option for a bonus. We communicated the option of being exempted from fees when using the first payment account which returns money to the public at large mostly via the Internet and external advertising channels.

We popularized all options Postbank offers in support of small companies, secured by European OPs and state funds: overdraft for agricultural producers, called On Time, providing financing for the working capital of agricultural companies, the SME Initiative, designed to offer financing for covering investment and working capital needs with the support of the European Commission and the European Regional Development Fund, and the Future plan, which finances projects, approved under European OPs. All of them reached their target audience via a communication campaign in specialized media and websites.

We took care also of the daily needs of our individual clients, who do not actively use bank services. To reach them, we promoted the option of sending money via Western Union and Postbank – a service combining convenience and the possibility of being rewarded for being our client.

We continued positioning Postbank as a modern bank offering flexible solutions and predicting the expectations of the market thanks to well-targeted advertising and innovative products which address the current needs of consumers.



The Bank is a member of the Bulgarian Association of Advertisers (BAA). The organization's objectives include: self-regulation of the messages to consumers, active participation in all processes and projects related to the application of European and global practices in the field of advertising and maintaining an efficient and useful dialogue with the media in order to conduct a responsible, honest and transparent advertising policy. BAA provides its members with information about legal, regulatory and production issues, sharing best practices and novelties in technology and advertising communication trends.

The Bank complies with the Law on Consumer Protection, the Law on Competition Protection, the Law on Credit Institutions, the Law on Banking and the Law on Consumer Loans, which regulate the communication of bank products, as every advertising campaign is coordinated with the Legal Department.

## HUMAN CAPITAL DEVELOPMENT

### Human Resources

Any organization's achievements could not be considered apart from the role of its human capital. Postbank Management holds the conviction that taking care of employees, their development and motivation is essential for the organization, for the achievement of both short-term and strategic goals.

Dynamic environment and intense competition on the banking market impose ambitious and multidimensional requirements on the function of human resources. They are related to the capability of human resources staff to identify and put appropriate people at relevant positions, to ensure efficient training in order to quickly develop the necessary professional skills, as well as to develop and motivate internal talents.

The Human Resources (HR) Division contributes to the Bank's success, by creating and sustaining an environment which encourages employees' achievements and efforts in raising their level of professional qualification.

### Recruitment

The successful recruitment process is highly important for having qualified and motivated human capital. Therefore, as it has been so far, this process complies with high professional standards of accuracy, transparency and objectivity.

Since the requirements for appointment at different positions at the Bank are related to both high level of professional knowledge and proven moral and ethical values, the Bank aims at developing its internal contributors – people with undeniable qualities. This is why, more than two-thirds of the Bank's job openings (65%) were taken by personnel coming from the so-called internal market, i.e. by promoted and reappointed employees. Their number increased by almost 25%, compared to 2016. 35% of 2017's job openings were occupied by candidates outside the organization, i.e. attracted from the so-called external market.

Requirements for professional training remained high also for the candidates from the internal market. The good results are indicated by the fact that 92% of the newly-appointed employees at the Bank had a university degree in 2017. High recruitment criteria are illustrated also by the fact that 70% of the newly-appointed employees had more than three years of professional experience in 2017.

### Professional Training

The Bank lays emphasis on providing additional training to its employees, as well as opportunities for skill improvement as one of the most powerful tools for achieving its strategic goals. The high expectations of the Bank's Management and employees in this area were met by organizing different training initiatives in many strands. A strong emphasis was placed on developing the skills of employees and increasing their understanding of the importance of delivering the highest-quality customer service.

In 2017, like in previous years, the Bank focused on applying theory to real practice. Particular attention was paid to the practical part of the training of newly-recruited employees, both in the Head Office and in the branch network.

The efficiency of the training programmes increased by 60%, compared to 2016, through optimization of the process, the way of training and introduction of an electronic form of training.

In 2017, new areas of application of new learning technologies, such as online and distance learning, continued being developed, increasing the ratio of offline learning hours to online learning hours from just 1% in 2016 to 17% in 2017.

### Induction Programmes

Induction programmes continued being in the focus of the Training and Development Department as an essential tool which ensures continuity and high quality of business processes. They were a subject to periodic review, change and upgrade, tailored to the needs of the staff.

In 2017, a training room was set up at the Head Office, equipped with computers and an available test environment for the main banking system in order to focus on the practical part of the training, which will facilitate the quicker adaptation of new employees from the branch network.

A training bank branch was also built in order to improve the practical knowledge and skills of newly-recruited employees. In 2017, all newly-recruited employees passed an introductory programme and the Bank put a special focus on the structuring of an introductory programme for the Head Office employees. The training and development activities also emphasized training of internal trainers, experts in their job, in order to transfer their professional knowledge to the various related units in the Head Office. The Training and Development Division also sought to meet the training needs of employees who were internally re-appointed during the year, as well as to ensure appropriate training and smooth transition for the staff from units that underwent structural changes.

### Structured Approach for On-the-job Training

In 2017, we continued binding theory and practice in the specialized centres of Branch Network Division. They are not only business centres, but also provide training programmes. Not only newly-recruited, but also promoted employees developed their practical knowledge and skills during the on-the-job programmes.

### Feedback

Feedback on the different levels is of particular importance for the Education and Development Department. It provides an opportunity to assess the pros and cons of the relevant training programmes and to work towards change and improvement.

### Measuring Professional Preparation

The practice of regular and standardized measurement of employees' professional preparation in terms of systems, products and actual campaigns continued in 2017, by conducting regular quarterly tests for branch network employees. The tests were carried out online and the results were received immediately. They were used to identify the areas in need of knowledge improvement. Some changes were made to the platform to enable employees to see their mistakes shortly after the test and to prepare better for the next one.

### Long-term Qualifications

In 2017, The Bank continued providing its high-flyers with opportunities to enrol in internationally-recognized qualification and certification programs such as ACCA, CFA, CIA, CISA, CIMA, as well as to gain a degree in Bulgaria.



## Branch Academy

As alternative of Harvard Business School an academy for managers was organized. It was divided into two thematic areas. The Development of Young Managers programme was designed for employees with short or no managerial experience and takes two years to complete. The Enhancing Leadership Skills programme is aimed at employees with managerial experience of more than a year and takes one year to complete.

## Performance Management

The Bank's commitment to employees' personal and professional development is one of its major values. In this respect, every year each employee's personal performance is evaluated using the performance appraisal process, which facilitates their further purposeful skill development. Performance management procedures guarantee transparency and objectivity. Every employee is assessed regardless of their position, having in mind employees' responsibilities and tasks. Moreover, the system assesses not only the performance of tasks, but also the way they have been fulfilled, thus improving the communication between evaluators and evaluated, and encourages employees' personal and professional development.

An updated performance development system, implemented in 2011 and revised in 2014, guaranteed the efficiency and effectiveness of the whole process. The system guides employees to the business spheres where their skills and potential will be of the highest value and, at the same time, encourages them to achieve their professional goals.

## Compensation and Social Benefits

Postbank is aware of the social impact of its position as a major employer and is determined to provide its staff with various benefits. In this context, the Bank implemented and strives to extend a consistent policy of providing additional benefits to its workforce and of applying strict health and safety standards at the workplace. The Bank provides various forms of support for *ad hoc* cases. All employees of the Bank have an additional health insurance in a private fund, the price of which is fully covered by the employer. The additional insurance covers also the cost of medical treatment if necessary. Employees can also conclude agreements for additional insurance of family members at preferential terms if they wish so. The Bank provides its staff with an additional life insurance, covering the expenses upon occurrence of an insurance event. Moreover, the opportunity to use the Bank's products and services at preferential terms is a significant benefit for Postbank's employees. These include home and consumer loans, credit cards, overdrafts, online banking. Staff members pay no fees for most banking operations such as cash transfers, withdrawals, etc.

## Health and Safety at Work

The success and productivity of a business relies on the efficiency of its employees. This is why, ensuring healthy and safe working environment for each employee is the basis for health management at the Bank. Postbank not only strictly adheres to all safety standards prescribed by the labour legislation, but also undertakes additional actions to protect its employees' health for reasons of moral nature and out of the conviction of the Bank's Management that the establishment of a healthy and safe environment leads to better motivation of the staff and better competitiveness. Postbank works in close cooperation with a labour medical service to ensure the safety and health of its staff at work. A joint assessment of the risks for the staff's health and safety is prepared, including assessment upon changes of labour conditions at the workplace and upon introduction of new technologies. All Postbank's employees are represented in the Health and Safety Committee – a centralized committee covering all Bulgarian structural units of the Bank. The Committee is based in Sofia and is responsible for the Bank's Head Office and branches. In this regard, in 2017, first aid training was organized for all heads at the Bank's Head Office. It was carried out by doctors, representatives of the First Aid Academy, in order to provide timely first aid in an accident or in case of need.

# REDUCING THE ENVIRONMENTAL FOOTPRINT

## ENVIRONMENTAL POLICY STATEMENT

Postbank values sustainable business development much higher than short-term profitability and other commercial gains. We believe that our duty towards our shared natural environment is a crucial ingredient of our commitment to the wellbeing of our stakeholders and the society we operate in. Therefore, we strive to mitigate the adverse environmental impact of our activities and to make use of every opportunity to induce possible ecological changes.

As a major Bulgarian bank and part of a powerful international financial group, we recognize our numerous opportunities to influence public agenda. At the same time, we understand that this unique position we enjoy makes it all the more imperative for us to abide by the principles of good corporate citizenship and to set a positive example for all of our colleagues, partners, fellow citizens and clients to follow.

Our parent Eurobank Group boasts remarkable achievements in the field of environmental protection and we are determined to transpose and enrich its best practices on Bulgarian soil. In this respect, we are committed to set appropriate objectives and targets, to continuously monitor, assess and improve our own environmental performance and to comply with all relevant local, national and international legislation.

As a socially responsible institution, we have pledged to employ all leverage that we have to work for the preservation of the planet that our children will inherit. To this end, we are not only determined to pursue a policy of environmental responsibility in our everyday operation through our dedicated employees, but also to gradually extend it to our suppliers, clients and society in order to promote beneficial environmental practices and sustainable economic growth.



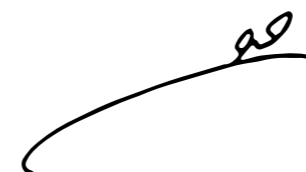
**Petia Dimitrova**

Chief Executive Officer and Chairperson of the Management Board



**Dimitar Shoumarov**

Executive Director and Chief Financial Officer, Member of the Management Board



**Asen Yagodin**

Executive Director and Member of the Management Board

## ENVIRONMENT PROTECTION

### 1. Postbank's environmental management overview

Today's world is facing the phenomenon of pollution and climate change. There is hardly any individual or organization who would doubt the importance of managing the consequences of the environmental changes pollution and climate change create, and of coming up with the proper means to curb them.

There are two main types of environmental aspects of the activity of an organization – direct and indirect, and they lead to the manifestation of two corresponding types of impacts. The direct impacts on the environment result from the operation of a company (operational footprint), while the indirect stem from the products and services the company offers.

Banks do not directly impact the environment to a large extent since their consumption of energy and other resources is minor, compared to other industries. They, however, could contribute significantly to the efforts to save the environment through selective lending practices, as well as through the implementation of environmental risk management in their loan portfolios. Apart from that, banks could serve as a good example to society by taking care of internal resources.

Postbank is committed to actively managing both the direct and the indirect environmental impacts of its activity. It has its own Green Board and an Environmental Office unit in its organizational structure, which are working to preserve the environment both through limiting the resources consumed by the Bank and through its financing activities. Moreover, the Board members organize different outdoor initiatives involving the other employees as well. The Bank invested in its own internal programme Green Together, which it developed with own funds and implemented through the voluntary work of its employees.

The overall realization of various internal initiatives in the area of environmental management brought Postbank the Greenest Bank in Bulgaria Award at the seventh *b2b Media* annual awards – The Greenest Companies of Bulgaria 2017.

### 2. Resource consumption management at Postbank

In line with its policy and decisiveness to act, Postbank has identified the following **direct impact** of its operations related to the internal consumption of energy, water and paper, and its respective carbon footprint.

A number of initiatives targeting resource use optimization were pursued throughout the years and kept pace in 2017. The outcome of these is presented in Table 1 below through three **environmental indicators**.

Table 1. Energy, water and paper consumption in Postbank, 2012-2017

INDICATOR	2012	2013	2014	2015	2016	2017	2017-2016 <sup>Δ</sup>	2017-2012 <sup>Δ</sup>
CO <sub>2</sub> emissions from electricity consumption,	7,421	6,096	5,558	5,391	5,289	4,071	-23%	-45%
Water, m <sup>3</sup>	89,217	81,740	52,646	46,767	46,899	45,638	-3%	-49%
Sheets of paper	37,610,615	34,315,000	32,325,000	30,073,000	31,122,005	30,902,332	-1%	-18%

Source: Environmental Office calculations based on Premises Department and Facilities Department data.

In 2017, Postbank launched an innovative project aiming at the gradual implementation of digital signatures of all transactions done by customers at the financial centres of the Bank. The implementation of this project led to a significant decrease in paper consumption, as printouts were replaced by digital copies of documents. Its full impact will be evaluated in 2018 when it is scheduled for completion.

Significant efforts were put in staff training in the area of environmental management. Thus, in 2017, 133 small business banking experts from across the branch network underwent an in-house training in environmental risk management in lending.

As a socially responsible institution and as a part of its overall policy for sustainable development and environmentally-friendly behaviour, the Bank created its latest internal initiative, called Green Heroes, in 2017. It will continue in 2018 and is aimed at encouraging socially responsible behaviour in the Bank's employees. They can apply through the campaign for funding from the Bank to implement various local projects of their choice, which show that simple actions could achieve sustainable changes. Six projects aimed at improving the state of the environment and at supporting the community were launched just a few months after the initiative was launched.

Apart from the direct impact and its effect on society, Postbank is continuously investigating the **indirect environmental aspects** from its operations. These are related primarily to its corporate and small and medium enterprises lending portfolio. In this area, robust Environmental and Social Risk Management Procedure is implemented to ensure that lending is provided accounting for the risks for the environment. The Bank encourages green businesses indirectly through the implementation of this procedure. It prescribes the particular methodology, which is followed to ensure that environmental and social risks are evaluated and monitored in the lending process, as well as the roles and responsibilities of all parties involved in the process.

Postbank has identified the following **goals for 2018** in the area of environmental management:

- Achievement of further resource efficiency in the form of a 1% decrease across the various lines (energy, paper, water) through the implementation of a set of measures;
- Launch of e-learning in various aspects of the application of the environmental policy of the Bank;
- Further enrichment of the existing intranet training materials for the staff on environmental issues important for bankers.

The environmental objectives and targets are defined so as to contribute to reaching the goals, as set out for the respective year.

### 3. Fines, sanctions or lawsuits

Postbank was subject of no fines, sanctions or lawsuits in the area of environmental management in 2017.



## INVESTING IN SOCIETY

Investments in sustainable development were an essential part of the activities of Postbank in 2017 as well. Besides on its core operations, the Bank is also focused on the local community needs by implementing its own initiatives and supporting programmes of established institutions and organizations, as it strives to be their long-term partner.

The financial institution is extremely active in the field of corporate social responsibility and implements numerous socially significant projects in the fields of education, environment protection, sports and corporate donation. Some of these projects in 2017 were the charity relay run Postbank Business Run, internal programme *Green Together with Postbank*, the newest internal initiative *Green Heroes*, participation in the UN Global Compact's most recognizable initiative – Proud of my Parents' Work, partnerships with the American University in Bulgaria and the National Trade and Banking High School. Its social responsibility projects were distinguished with awards in the most prestigious competitions in the country.

### INVESTMENTS IN EDUCATION



Promoting education and successful young people is an integral part of Postbank's corporate philosophy. In 2017, Postbank started the application and approval process for its traditional summer internship programme in the Retail Banking Sector. The internship has been part of the Bank's corporate social responsibility policy in support of young people for over 10 years now.

Postbank joined the eighth edition of the Career Days, which this year was held at the University of National and World Economy. It enables students and young professionals looking for career development in different areas to meet the industry leaders in the sectors and find their new job or join an active internship program.

In 2017 the financial institution supported the National Trade and Banking High School in Sofia for another year and committed to becoming a mentor to one of the training banks. Postbank Next deservedly won the second place in the school competition.

Postbank supported for the third consecutive year *Bulgaria ON AIR's* and *Bloomberg TV Bulgaria's* conference, called Education and Business. The international forum brought together representatives of leading companies which are working for young people's development every day. The financial institution actively participates in Open House, an event of the American University in Bulgaria. The long-lasting strategic relations with the prestigious school helped the Bank's team successfully present products for students and their parents.

The Bank joined the international forum Next DiFi 2017, organized by *b2b Media*, and the second annual conference Finances in the Digital World, organized by *Banker Weekly*. The first international conference Dare to Scale, organized by the Bulgarian office of the global entrepreneurial organization Endeavor, took place in Sofia with Postbank's main support for the first time.



The Bank's team enthusiastically supported *Forbes* magazine's event – the 30 under 30 forum, which brought together for the second consecutive year 200 of the most successful young people in Bulgaria – entrepreneurs, managers, people with social causes, athletes and artists.

In March 2017, specialists from the Bank took part in the "European Week of Money". The joint initiative of the European Banking Federation, the Association of Banks in Bulgaria and other national banking associations, aims to improve the level of financial education of pupils in primary and secondary schools in Europe. Experts from the Bank held open lessons to raise financial literacy to eight-graders from the Professional Commercial School in Burgas and from Geo Milev English Language High School in Rousse. Students from the 10th grade of the American College in Sofia attended half-day training in Corporate Banking Division and Corporate Communications and Marketing Division at the Head Office. Representatives of the Bank hosted third-class students from 23 "Frederick Jolio-Curie" School in Sofia.

In 2017, Postbank joined the UN Global Compact Network Bulgaria to expand its initiatives in support of the community and the environment. Thus, the Bank once again declared its willingness to pursue a corporate policy which respects the 10 universal principles for social responsibility and environmental protection of the Global Compact. The Bank opened its doors to children in Sofia as part of the UN Global Compact's most recognizable initiative – Proud of my Parents' Work. Its goal is to present labour as a value and necessity. The program creates empathy with the values of work and progress in life, thanks to personal qualities, abilities and accumulated knowledge. It also helps children's professional orientation, even at an early age. Through specially designed games and learning presentations, the children learnt what makes adults' labour important and what it means to be a banker.



### INVESTMENTS IN SOCIETY

During the year, the Bank continued its long-term support and work with disadvantaged people and stimulated their active role in society. On March 1, Postbank traditionally handed over 14,000 handmade martenitsas as a special gift to customers, partners and employees. Partners in the initiative of the Bank for the eighth consecutive year were the Third Age Foundation in Rousse and the Future for Children with Disabilities Association in the town of Kazanlak, who also produced Christmas cards for clients and partners of the Bank.



The financial institution invests annually in the construction of an exquisite arch in the center of Sofia as a festive gift for the residents and guests of the city. In this way, each year Postbank contributes to the Christmas decoration of the capital.

Following its successful presentation in National Library of Prague, the Bulgarian Czechs exhibition is now open in Sofia thanks to the Bank's support. It was part of the programme of the 11th meeting of Bulgarian media, traditionally organized by BTA.



### INVESTMENTS IN SPORT

Postbank supports the participation of employees in sport events. In June 2017, Postbank was the main partner in the charity relay run Postbank Business Run, organized every year by Begach sport club. It was joined



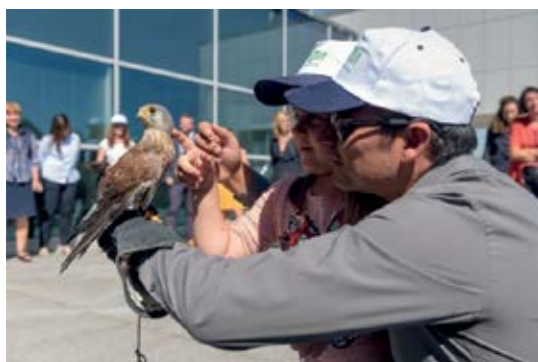


by a record number of participants – 250 teams from 120 companies from various sectors, which competed in support of two causes. Thanks to the initiative, BGN 9,504 was raised and donated to projects of Cedar Foundation to organize one-year occupational therapy for 15 children and young people with disabilities and to a project of Water Way Foundation to provide a six-month water rehabilitation of 15 children with disabilities. Begach sport club bestowed the financial institution with a special prize for participating in Postbank Business Run 2017 with the highest number of teams in the Companies with 500+ Employees category for the second consecutive year.

The biggest regional corporate competition Business Run Plovdiv 2017 took place for the first time in 2017. Postbank was among the partners of the event. The BGN 2,500 raised from participation fees was donated to Holiday Heroes Association and their initiative Love in Action with Holiday Heroes, which supports 28 socially disadvantaged families in Plovdiv, and the Phoenix Centre for Psychological Counselling in support of children and their mothers, victims of domestic violence.

Postbank also invests in support of sport teams – the Bank has supported the volleyball team of the town of Dobrich, Dobrudzha 07, since 2015. Postbank's football, basketball and table tennis teams did well in the International Sports Workers' Festival in 2017, in which the Bank's basketball team won the prestigious first place. The company's football team placed second in the 14th Business Leaders Olympiad, which was held this year.

Postbank is the only bank in Bulgaria, which has incorporated own Green Board and an Environmental Office unit in its organizational structure. They are working to preserve the environment both through reducing the resources consumed by the Bank and through its financing activities. Moreover, the Board members organize different outdoor initiatives involving the other employees as well. The Bank invested in its own internal programme, called *Green Together with Postbank*, which it is developed with own funds and is implemented through the voluntary work of its employees.



As a socially responsible institution and as part of its overall policy for sustainable development and environmentally-friendly behaviour, the Bank created its latest internal initiative, called Green Heroes, in 2017. It will continue in 2018 and is aimed at encouraging socially responsible behaviour in the Bank's employees. They can apply through the campaign for funding from the Bank to implement various local projects of their choice, which show that simple actions could achieve sustainable changes. Six projects aimed at improving the state of the environment and at supporting the community were launched just a few months after the initiative was launched. The Postbank team in the town of Samokov supported a municipality project for the improvement of a recreation

area in the old part of the town. Ten bird houses and five feeders were placed in the area of the Bank's Headquarters thanks to the joint efforts of its employees and representatives of the Wildlife Rescue Center in Stara Zagora. The team of Dondukov Branch was actively involved in the repair of the yard of a kindergarten in the village of Tserovo. Employees from the Customer Relations Department and Sofia-Pliska Branch upgraded the area in front of the Bank's branch and placed benches for the citizens and the team of Individual Banking and Alternative Channels cleaned and upgraded a picnic area to the Kambanite Park Complex in Sofia, and placed bird houses. The initiative included the team of the Bank in Stara Zagora, which also upgraded the area in front of the branch and placed benches for the citizens. The overall realization of the internal initiative brought Postbank the Greenest Bank in Bulgaria award at the seventh *b2b Media* annual awards – Greenest Companies of Bulgaria 2017.

## OTHER DONOR INITIATIVES

The Bank has traditionally supported the national campaign "Easter for Everyone" – Give a Holiday to Grandma and Grandpa, which was again held in 2017 under the patronage of the Ombudsman of the Republic of Bulgaria.

Postbank's employees are also regular donors in the National Centre for Transfusion Haematology and take part in blood donation activities, organized and held in the Head Office.











