

# FINANCIAL AND SUSTAINABILITY REPORT 2016





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## *AMBITION*

*can win a battle. Persistence can earn the final win.*



*FINANCIAL  
AND BUSINESS  
REVIEW*



### **Dear Shareholders,**

*The past year will be remembered as one of the most important years in the history of Postbank. The year was full of notable events and achievements – we celebrated our 25th anniversary, acquired and integrated the operations of the branch of Alpha Bank in Bulgaria, passed successfully the asset quality review conducted by the Bulgarian National Bank, improved our financial results and achieved the best net profit in our history. With a net profit of 120 million leva we managed to deliver 11.22% return on equity – full 1.5 pp. above the results from the previous year. We can attribute this not only to the soundness of our business strategy focused on profitability, innovations and excellent client service, but also to its successful execution by our dedicated employees.*

*With a real growth of 3.4%, the Bulgarian economy is recovering well although it is yet to realize its full potential. The growth in 2016 was once again driven by the external sector, while the consumption was lagging behind expectations and the contribution of investments was negative. Nevertheless, the economic activity was picking up and the companies were hiring more workers thus reducing the unemployment rate to levels last seen before the crisis. The economy was finally out of the deflationary trap as the consumer price index turned positive for the first time in the last four years. The banking sector was positively influenced by the improved macroeconomic conditions – total deposits increased by 7% YoY, while total loans were marginally higher after two years of negative growth. More importantly, the nonperforming exposures shrank by more than 1 billion leva and the nonperforming exposures ratio improved by 2 pp. to 18.3%. Although total income was marginally lower in 2016, the lower provisioning expenses helped improve the net profit of the banks by 40% to 1.26 billion leva.*

*Postbank's achievements were even better. Total income was up 23% to 367 million leva, while the operating expenses and provisions for impairment were kept under control. We successfully completed the AQR and the stress test proving that the Bank is in very good shape. We maintained our strong capital adequacy and liquidity ratios. Our CET 1 ratio improved to 23.33%, supported by the 107.6 million leva share capital increase in March 2016, and was practically the same as the total capital adequacy ratio (23.35%). Liquidity ratio is equally impressive, reaching 40.1% at the end of the year.*

*Without a doubt, the milestone event of the year was the acquisition of the operations of Alpha Bank's branch in Bulgaria in March 2016. Thanks to the hard work and strong commitment by all people involved both locally and in the Head Office, the integration was done in a record time. Less than three months after the legal merger, we completed also the operational merger without any disruption in the service provided to our existing and new clients. The deal made a valuable contribution to our strategy not only in terms of loans and deposits, but more importantly helping us strengthen our sales capabilities with more locations and experienced personnel.*

*The development of the lending portfolio was influenced by a number of factors throughout the year. In the beginning of the year we sold a portfolio of BGN 140.1 million nonperforming unsecured consumer loans and credit cards in line with the Group's strategy to reduce the volume of the nonperforming exposures and improve the quality of the portfolio. However, thanks to the acquisition of Alpha bank's branch and the strong organic growth, at the end of the year our net loans rose by more than 8% to 4 214 million leva.*

*We continued to strengthen our positions in the corporate segment. For a third year in a row, our factoring business kept its leading position on the market with 40% market share. What is more, throughout the year, our Corporate Banking Division granted more than 500 million leva in new lending to medium and large companies in Bulgaria. As the business activity rises and the investment plans of the Bulgarian companies are getting more ambitious, we realized the need and set up a new Project Financing unit in CBD specialized in analysis and financing of projects with budget of over €10 million. In order to provide our medium sized and small business clients with the most beneficial conditions and access to financing, we signed a €70m guarantee line with the European Investment Fund under the SME Initiative programme and a new guarantee agreement with the National Guarantee Fund.*

*Being one of the leading banks in the retail segment, we were well positioned to gain from the market recovery. New business volumes increased by more than a third in the consumer lending and over 40% in mortgage segment supported by our new and innovative products and competitive rates. We were able to do the latter as the ample liquidity on the market drove the rates on the deposits to levels not seen in the modern banking history of Bulgaria. Our deposits increased by close to 920 million leva and net loans to deposits ratio improved by 9 pp to 76%.*

*The end of the era of high deposit rates encouraged our clients to become more active in managing their finances and to open up for new investment opportunities. More clients are investing in the mutual funds distributed by the Bank, while our investment and insurance product Everest proved a huge success. We started offering structured products to institutional clients and preserved our leading position in custody services. For a sixth year in a row we were prized as "top rated" custodian by the Global Custodian and Global Investor magazine.*

*Providing impeccable client service is a must if we want to be successful in this competitive environment. This is why we enlarged our network of Personal banking centres and launched a new personalized and exclusive service – Private Banking in partnership with Eurobank Private Bank Luxembourg S.A.*

*We want to be recognized by the clients as a modern and innovative bank. In this respect we keep investing in new products, improving the customer experience and enhancing the digital channels offerings. We*

## LETTER TO THE SHAREHOLDERS

*set up a new Digital Banking Department which will lead the efforts for the digital transformation of the banking products. In line with the above we launched our mobile banking application in May 2016 which was well accepted by the customers. It was followed by an online video loan which allows a convenient video consultation via Skype and a fast reply within two hours.*

*Our efforts were not left unnoticed and in the past year we received again numerous awards. The one that we are most proud of is the Innovations in Banking Products and Services from Forbes Business Awards as this is how we want to be distinguished. Throughout the year we continued our support to socially significant projects in the field of education, early child development, environmental protection, sports and corporate donations. Our longest ongoing project, Best Start for Every Child, raised more than 800 000 leva in the last three years.*

*In the end, I would like to thank our shareholders and our Head Office for their strong support and commitment and our clients for their trust. Last, but not least, I would like to express my gratitude to all our employees for their hard work and dedication. The old clichè that the employees are the most valuable asset of the organization is actually more than true as these results would not have been possible without their commitment. On behalf of the management team I want to thank them and assure them that what they have been doing is recognized and highly appreciated.*

*The outlook for 2017 is bright. While 2016 was full of events, our main goals for the next year is to go back to what we do best –organic growth, excellent client service and focus on profitability. The economic recovery is reviving the demand for loans and we are well positioned to expand our lending portfolio while maintaining a prudent level of risk appetite. We will keep on investing in innovative products and new technologies in order to provide even better service to our clients. We are confident for the future as we have built an efficient structure able to compete in the current highly competitive environment and deliver the results that our shareholders expect.*



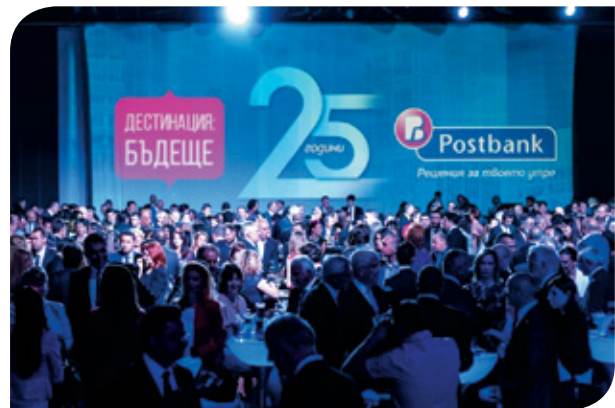
# BANK PROFILE

## Important events that happened throughout the financial year

**Postbank**, legally named Eurobank Bulgaria AD, is the fifth bank in Bulgaria in terms of assets which has a large branch network across the country and considerable customer base of individual customers, companies and institutions.

Postbank has a 25-year presence among the banking market leaders in Bulgaria. It has been a leading factor in innovations and a trend setter in the banking sector in the country 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. It is among the market leaders in credit and debit cards, home and consumer lending, savings products, and products developed for corporate customers – from small companies to large international corporations represented in the country. The bank has one of the best-developed branch networks and modern alternative banking channels.

## Important events



In March 2016, Postbank acquired the operations of Alpha Bank-Branch Bulgaria, which was yet another step towards strengthening its position as a market systemic bank and the expansion of its customer base. The operational merging was completed in the record short time of three months and at the end of May, customers already used all the benefits of the bigger bank. The acquisition of the operations of Alpha Bank-Branch Bulgaria was a key event for the entire banking market. It was the first significant deal in the ongoing process of consolidation, which is expected to bring even more stability and security in the banking system in the country.

The results of the asset quality review (AQR) of the Bulgarian banking system, completed in August 2016, showed that Postbank is well-capitalized and financially stable. According to the AQR and stress test results, published by the BNB, the Bank's Common Equity Tier 1 capital (CET1) ratio is 19.7% even in the conditions of an adverse scenario. The combination of a strong capital position, high liquidity and excellent AQR and stress test results allows Postbank to work towards its goals for achieving sustainable growth in the long term.

In June 2016, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's BB+ long-term rating, a short-term rating of B, and changed the outlook from stable to positive. Again in June, the Bank was awarded also national long-term rating of A-(BG), with positive outlook, which is improvement from the BBB+(BG), with stable outlook, from the previous monitoring in January 2016.

In 2016, Postbank celebrated its 25th anniversary on the Bulgarian market by offering its customers special offers for the jubilee. Moreover, the Bank continued introducing its customer-oriented model by offering service

in specialized centres and through modern online channels, which it will further develop in 2017.

In June, Postbank opened its first Private Banking Centre in Bulgaria in partnership with Eurobank Private Bank Luxembourg. It offers customers of the Bank, who fit the respective profile, a range of investment services in discretionary asset management, wealth management and business consulting.

Once again, Postbank was the only financial institution from Bulgaria to reach the finals of the international competition for best practices and excellent business achievements – European Business Awards. The Bank won its third consecutive award in the Innovations in Business category for the innovative Different Consumer Loan, which offers customers the chance to receive back some of the interest on the loan. Furthermore, the Bank offered many products and services along with its consumer loans, which provided extra added value.

In 2016, Postbank reported its best year in consumer lending in the post-financial crisis period with the considerable growth of over 30% of new loans.

In 2016, the Bank reported an increase of over 40% in loan applications submitted by entrepreneurs in the country from all economic sectors. For a third consecutive year, Postbank's efforts were assessed by the European Bank for Reconstruction and Development through the award Most Active Bank in Bulgaria in Commercial Financing.

Postbank also received two prestigious STP Excellence Awards for high quality of foreign currency transactions in EUR and USD for 2015, awarded by Deutsche Bank – the Bank's long-standing partner in correspondent banking.

In September, Postbank signed a new agreement with the National Guarantee Fund (NGF), a subsidiary of the Bulgarian Development Bank (BDB), for the second guarantee programme for agricultural producers, which is implemented with the financial support of the Ministry of Agriculture and Food. In 2016, Postbank registered considerable year-on-year growth of over 25% of issued loans both to the agricultural sector and the other economic sectors. Postbank retained its leadership position in purchased receivables on the factoring services market for a third consecutive year, and it is Factor number one in Bulgaria with a 35% market share of the overall factoring services volume and with an over 68% share of export factoring. The Bank attracted both new corporate customers and new counterparties for its current customers, building a strong profitable portfolio.

Throughout the year, Postbank continued organizing the series of specialized conferences, called Postbank Meets Business, in support of the business in the country. In 2016, the Bank's team visited Pleven, Russe, Veliko Tarnovo, Stara Zagora, Lovech, Sliven, Blagoevgrad, Pernik, Kyustendil, Shumen, Razgrad and Dobrich. At the meetings there, the Bank's experts presented to the local business representatives strategic solutions in support of the business in the respective regions.

## New Products

In 2016, Postbank introduced more innovative products, focusing on offering convenience and additional benefits to the customers.

The bank presented a new type of a product – Different Consumer Loan, with which it imposed new standards in the consumer lending in Bulgaria. After the success of the innovative Saving Mortgage Loan, developed by the Bank, the Different Consumer Loan was yet another modern offer, which established the financial institution as a factor in setting new trends in the banking sector. This innovative product allows customers not only to finance their needs at favourable conditions, but also to receive back some of the interest rate paid throughout the loan term.

Saving Mortgage Loan is one of the most successful products of the financial institution that has won several international awards in prestigious competitions, including the European Business Awards and Effie Bulgaria. The key advantage of the product is the option to automatically lower the interest rate depending on the amount

of funds deposited in the Bank, and in 2016, it was offered with even more favourable conditions.

In 2016, the Bank changed the organizational structure of its Individual Banking and Alternative Channels Division. The newly created department in the Division, called Digital Banking, is responsible for the digitalization of the banking products, including all online channels and services, offered by the Bank. At the beginning of May 2016, Postbank presented its modern mobile banking application, m-Postbank. By the end of 2016, the app generated 19,000 downloads and registered the highest rating among the mobile banking apps in Bulgaria.

In July, Postbank launched an entirely new product on the Bulgarian market – the online video loan, One Click. It allows customers to receive free of charge online video consultation via Skype from the Bank's experts who can fill in the loan application even during the conversation. The Bank commits to give a quick reply within two hours after the submission of the loan application, within the office hours. This alternative and convenient service is yet another step of the financial institution in the development of modern and innovative financial solutions that meet the individual needs of its customers.

Postbank introduced another new service which again provides a modern way to use banking services. Mobile Bankers are bank experts who provide free consultations in Sofia to existing and future customers of the financial institution. The mobile bankers answer all questions concerning consumer and mortgage loans, overdrafts and credit cards in a time and place of the customer's choice specified in advance.

Ten Bulgarians participated in the Beyond Hackathon competition at Postbank's invitation, part of the initiatives of Eurobank's Innovations Centre, which is aimed at inspiring, developing and promoting open innovations in the financial services area. The Bulgarian Imperia Mobile team ranked among the best teams in the regional competition. The Bulgarians won the third place with their innovative solution iBank which impressed the jury with functionalities such as augmented reality, fingerprint payment, camera scanning of credit and debit cards to log in the app, and a new way to make direct transfer among the bank's users.

To meet the consumer demand for more profitable investment opportunities, Postbank, in partnership with Bulstrad Life Vienna Insurance Group, offered a new product. Everest Investment Insurance Product is based on a specially developed insurance programme for deposit and investment in a structured product based on EURO STOXX 50, which allowed for the achievement of attractive profitability over time.

## Sustainable Development

In addition to its main activities, Postbank also focused on the needs of the local community, by supporting programmes and initiatives together with established institutions and organizations. In 2016, the Bank implemented a number of socially significant projects in the field of education, early child development, environmental protection, sports and corporate donations.

Young people and children are in the focus of Postbank's corporate social responsibility programmes. The Bank continued to provide support to UNICEF's project for developing a network of Maternal and Child Healthcare Centres to help families care for their children. Since the launch of the three-year project, *Best Start for Every Child*, in 2013 the financial institution has raised over BGN 800,000.

Support for education has always been part of the corporate social responsibility projects developed and supported by Postbank. In 2016, the financial institution supported the National Trade and Banking High School, and committed to becoming a mentor of one of the school banks. Postbank's Next student team deservedly won the first place in the school competition.

This year, the Bank also supported the conferences of *Capital Weekly* – Innovations for Better Education, and *Bulgaria on Air's* Education and Business. The events were aimed at promoting the successful practices of the school innovative through the use of modern education methods and new technologies.

The Bank's team enthusiastically joined also a project of the American College in Sofia – *School Meets*

*Business.* Four 12<sup>th</sup>-graders from the college purposefully and determinedly chose to meet Postbank's team because they identified it as a leader in the banking services and innovative products, and as a company awarded for its responsible and sustainable business in Bulgaria.

In June, for yet another year, Postbank was the main partner of the charity relay race Postbank Business Run, annually organized by Begach Runner Club. A record number of participants signed up – 259 teams of 109 companies from various sectors competed again in support of the cause of For Our Children Foundation – more children stay to live with their families. The initiative raised nearly twice as much money as the previous year – BGN 14,730. The financial institution also received a special recognition from Begach for participating in Postbank Business Run 2016 with the highest number of teams in the Company with 500+ Employees category.

Postbank invested also in supporting sports teams – the Bank has been supporting Dobrich's volleyball team Dobrudzha '07 since 2015. In 2016, the team became the volleyball champion of Bulgaria.

In September, Postbank joined for the fourth consecutive year the global initiative PARK(ing) Day, organized by Credo Bonum Foundation. Within the campaign, the financial institution surprised Sofia residents with the dedicated green corner in front of its office on Tsar Ivan Shishman Str. Within the event, called *Charger with a Heart*, all who wished could ride a bicycle and take care of their own health and the environment by generating green energy to charge their mobile device with a special charger which converts mechanical energy into electricity.

*Smile Art Fest* – the travelling caricature exhibition was implemented with Postbank's support and toured five of the largest cities in the country. The exposition included interpretations of popular caricature masters on the theme Destination Balkans – Destination Bulgaria. As the main sponsor of the festival, Postbank added another competition category – Destination: Future – the future in the life of the Bulgarian people and the Balkan nations close to them in spirit and soul, as seen from the point of view of modern technologies. The festival was organized by Imeon-Balkans Foundation in partnership with the Union of Bulgarian Artists, the Federation of Cartoonist Organizations (FECO), the Union of Bulgarian Philatelists, the Bulgarian Diplomatic Society and Ministry of Transport.

Postbank is the only bank in Bulgaria with its own Green Board and an Environmental Office unit in its organizational structure, focused on protecting the environment both in terms of limiting the resources consumed by the bank and of its financing activities.

Throughout the year, the Bank continued to provide its long-standing support for and work with socially disadvantaged groups, and to encourage their active role in the society. Throughout the year, support was provided to disadvantaged children in Kazanlak, to elderly people in Russe, to the only School for Guide Dogs in Bulgaria, the national campaign Easter for Everyone – Give a Feast to Grandparents, and many other smaller initiatives.

## AWARDS

- *Innovations in Banking Products and Services* – an award from the fifth anniversary edition of Forbes Business Awards;
- Special award for supporting the financing of small and medium enterprises by Business Club Magazine for the disbursement of low-rate working capital and investment loans to small and medium enterprises under the Forward Programme;
- *Sustainable Development Campaign* – an award from the prestigious PR and communications competition, BAPRA Bright Awards, for the project *Best Start for Every Child*;
- *Innovative Campaign of the Year* – an award from the prestigious PR and communications competition, BAPRA Bright Awards, for the project *Best Start for Every Child*;
- *Campaign Implemented by Internal PR Department* – an award from the prestigious PR and Communications

competition, BAPRA Bright Awards, for the campaign On the Wings of Success;

- *PR Project for Internal Communication* – an award from PR Prize 2016 for the On the Wings of Success campaign, third place;
- *Green Communications and Urban Environment* – an award from PR Prize 2016 for the Flying City Dwellers campaign, third place;
- *Online Company or Project* – an award from PR Prize 2016 for the Finances by the Note campaign, third place;
- *Special award of Manager Magazine* for the Flying City Dwellers project by PR Prize 2016;
- *Special recognition* by Begach Sports Club for participating with the highest number of teams in the Company with 500+ Employees category at Postbank Business Run 2016;
- Bronze statuette from EFFIE Bulgaria 2016 in the *Corporate Communications* category for the campaign launched for the Bank's 25<sup>th</sup> anniversary;
- First place in the *Product Re-launch* category – Best Marketing Team award for the product Student Loan by the Bulgarian Association of Advertisers (BAA);
- Two prestigious STP Excellence Awards for high-quality currency transactions in EUR and USA in 2015 by Deutsche Bank, the bank's long-standing partner in correspondent banking;
- National Champion of Bulgaria in the *European Business Awards' Innovations* category for the innovative Different Consumer Loan;
- The *special Bank Deal of the Year* award for the acquisition of Alpha Bank Bulgaria at the traditional competition – Annual Bank Awards of the Bank of the Year Association;
- The Golden Heart award in the *Green Planet* category for the Charger with a Heart project from the annual charity and corporate social responsibility awards Golden Heart of *Business Lady Magazine*.



## FINANCIAL REVIEW

### BALANCE SHEET

(All figures in '000 BGN)

	2016	2015
Net Loans and Advances to customers	4 214 400	3 895 818
Core Client Deposits	5 524 333	4 604 805
Shareholders' Equity	1 147 985	914 184
<b>Total Assets</b>	<b>6 818 262</b>	<b>5 752 662</b>

### PROFIT AND LOSS STATEMENT

(All figures in '000 BGN)

Net Interest Income	273 515	236 359
Net Fee and Commissions Income	70 095	60 140
Net trading Loss/Gain	11 678	566
Other Operating Income	11 395	518
<b>Total Operating Income</b>	<b>366 683</b>	<b>297 583</b>
<b>Total Operating Expense</b>	<b>147 327</b>	<b>112 384</b>
Deposit Insurance Fund	-15 572	-25 063
Provisions for Impairment	-69 755	-66 601
Profit Before Tax	134 029	93 535
Income Tax	14 459	9 435
<b>Profit After Tax</b>	<b>119 570</b>	<b>84 100</b>

### KEY FINANCIAL RATIOS

<b>Total Capital Adequacy Ratio</b>	<b>23.35%</b>	<b>24.73%</b>
<b>Net Interest Margin</b>	<b>4.20%</b>	<b>4.11%</b>
<b>ROA (after tax)</b>	<b>1.83%</b>	<b>1.41%</b>
<b>ROE (after tax)</b>	<b>11.22%</b>	<b>9.71%</b>
<b>Earnings per Share</b>	<b>0.26</b>	<b>0.19</b>
<b>Total funding</b>	<b>5 624 463</b>	<b>4 785 604</b>
<b>Fees &amp; Commissions/OPEX</b>	<b>48%</b>	<b>54%</b>
<b>Provisions/Loans</b>	<b>1.66%</b>	<b>1.71%</b>
<b>Provisions/Operating Income</b>	<b>19%</b>	<b>22%</b>
<b>Cost/Income Ratio</b>	<b>40.2%</b>	<b>37.8%</b>
<b>Net Loans/Deposits Ratio</b>	<b>76</b>	<b>85</b>

## Economic situation in Europe

The EU economies grew for yet another year, however, the recovery has remained incomplete. In 2016, the GDP of the EU countries grew by 1.9%, while in the Eurozone it was slightly lower at 1.8%. Consumption performed well but investments growth was weaker than in the previous year.

Growth will remain fairly stable in the next two years – it is expected to remain 1.9% in the EU as a whole, while it will deflate slightly to 1.7% in the Eurozone before rebounding to 1.8% in 2018.

Domestic demand will continue to contribute strongly, supported by the improving job prospects and a moderate wage growth. Unemployment rate finished at 10% at the end of 2016 but the expectations are for a relatively fast decline to 8.9% by 2018.

The monetary policy remained accommodating as ECB extended its Asset Purchasing Program until the end of 2017 and kept the negative interest rates. However, with inflation picking up from 0.3% in 2016 to 1.7% in the next two years, ECB might face increasing pressure to start adjusting the rates upwards.

## Economic situation in Bulgaria

	2014	2015	2016
GDP growth (%)	1.3	3.6	3.4
Inflation (%)	-0.9	-0.4	0.1
Unemployment (%)	10.7	10.0	8.0
GDP per capita (leva)	11 577	12 339	12 996

After the jump in 2015 when GDP increased by 3.6%, the Bulgarian economy could not repeat its success in 2016 although the macroeconomic framework remained robust. Growth was 3.4%, a respectable result given that many of the one-off effects, which contributed to the growth in 2015, were not present in 2016. The most notable was the drop in the investments which were negative in 2016.

The driver of the economy was once again the foreign sector which grew by 5.7%, keeping the pace from the last year. Consumption was rather disappointing, growing by just 2.1% despite the falling unemployment rate and rising disposable income.

The consumer price index turned positive for the first time in the last four years. The annual inflation rate was 0.1% as the prices of energy and food started to rise in the second half of 2016 and could no longer compensate the rising prices of the services.

The labour market is recovering faster than expected and some sectors are already experiencing a shortage of qualified staff. In 2016, the unemployment rate fell by 2 pp to 8.0%, the lowest since 2008. The pressure on the labour market led to a rise in wages. In the last year, the average salary rose by 8% with some sectors (trade, culture, sports and entertainment, and IT) rising by double digit rates.

After years of running fiscal deficits, the budget finished with a surplus for the first time since 2008. The surplus stood at BGN 1.47 billion (1.6% of GDP) on the background of the BGN 2.21 billion surplus from the European funds. The credit rating of the country was confirmed by two of the major credit rating agencies FITCH (long-term rating of BBB- in foreign and local currency, with stable outlook) and S&P (long-term rating of BB+ in foreign and local currency, with stable outlook), while Moody's did not announce an update in 2016 and the credit rating remained unchanged – Baa2 in foreign and local currency, with stable outlook.

## Bulgarian Banking System

	2014	2015	2016
Loans to GDP	66%	61%	59%
Deposits to GDP	77%	78%	80%
Loans to Deposits	87%	78%	72%

The Bulgarian banking system had probably the most successful year since the end of the crisis. The major challenges during the year – the Asset Quality Review (AQR) and stress tests conducted by BNB, were successfully passed, confirming that the system is in good shape and resilient to shocks. The system remained well-capitalized – the total capital adequacy ratio of the Bulgarian banks remained stable in 2016 at 22.2% despite the BGN 260 million extraordinary dividend paid by one of the biggest banks at the end of the year.

The deposit-driven growth of the banks continued. Total assets increased by BGN 4.57 billion (5.2% YoY) to BGN 92.1 billion, while the deposits of clients other than credit institutions grew by BGN 4.85 billion (7%) to BGN 74.1 billion. The bigger part of the increase still came from households (BGN 2.8 billion new deposits in 2016).

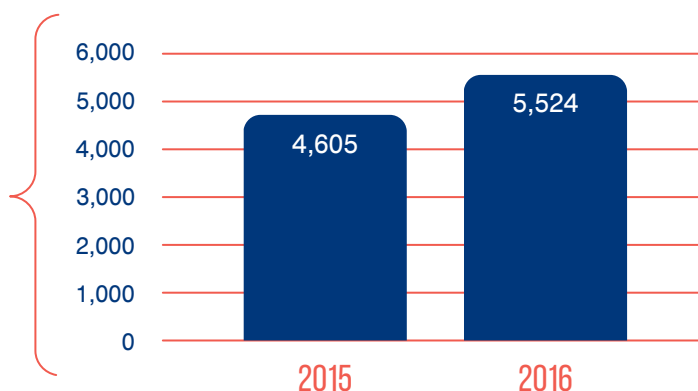
The inflow of deposits created a significant new liquidity that could not be absorbed by lending and was held as liquid assets. The liquidity ratio improved from 36.7% to 38.2% between 2015 and 2016 with the banks holding liquid assets in excess of BGN 30.3 billion.

Lending increased modestly – gross loans rose by BGN 350 million (0.6% YoY) to BGN 54.46 billion. Loans to non-financial companies decreased slightly by BGN 105 million to BGN 33.18 billion and consumer loans by BGN 40 million to BGN 8.68 billion. Mortgage loans rose by BGN 8 million to BGN 8.77 billion with the rest of the delta coming from financial companies, other loans and the government. However, hidden behind these numbers is the fact that the banks were actively cleaning their portfolios, writing off and selling non-performing loans, thus the actual growth was actually even higher.

Total income decreased by 3% to BGN 4.08 billion, although net interest income (BGN 2.81 billion) was slightly higher than in 2015. Interest income was down by 9% to BGN 3.32 billion but it was fully compensated by the interest expenses which dropped by 42% to BGN 511 million. Non-interest expenses decreased by 10% to BGN 1.83 billion, while provisions were reduced by a quarter to BGN 814 million. As a result, the net profit was propelled by 40% to BGN 1.26 billion for the year.

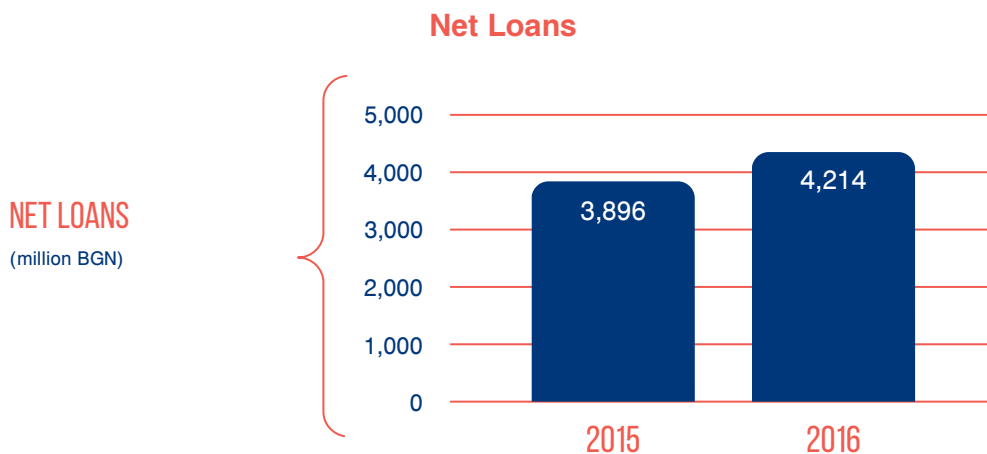
### Postbank Deposits and Liquidity

**CLIENT DEPOSITS**  
(million BGN)

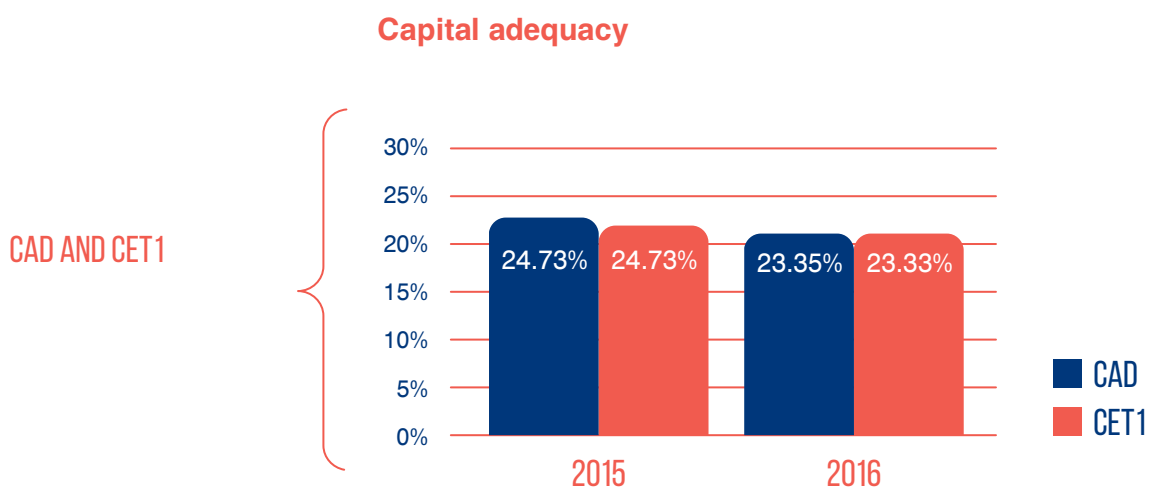




In 2016, total deposits increased by BGN 920 million (20% YoY) to BGN 5,524 million. Two factors contributed almost equally to the positive result – the acquisition of the operations of Alpha Bank - Branch Bulgaria and the internal sales efforts especially in the area of corporate deposits which rose by 60% to BGN 1,094 million, while retail deposits were up by 13.3% to BGN 4,430 million. Liquidity improved significantly which allowed the Bank to give up on more expensive funding, including the two subordinated term debts of a total of BGN 98 million, which were repaid in September 2016. Nevertheless, the liquidity ratio rose by more than 9 pp to 40.1%, providing an ample buffer for further increase of the lending.



Net loans increased by 8.2% to BGN 4,214 million. Two opposing factors influenced the volume of gross loans in 2016 – the acquisition of the operations of the Alpha Bank - Branch Bulgaria on the positive side and the sale of nonperforming loans in the opposite direction. At the beginning of 2016, Postbank sold a portfolio of unsecured consumer loans and credit cards of BGN 140.1 million with impairment of BGN 121.9 million, realizing a positive gain from the transaction. Because of this, the consumer lending portfolio decreased by BGN 58 million to BGN 648.4 million. The mortgage loans portfolio increased by BGN 239 million, while the Small Banking Business (SBB) loans remained almost flat at BGN 713 million. The corporate portfolio was under increased pricing pressure from the main competitors. Nevertheless, it was up by BGN 42 million to BGN 1,695 million.

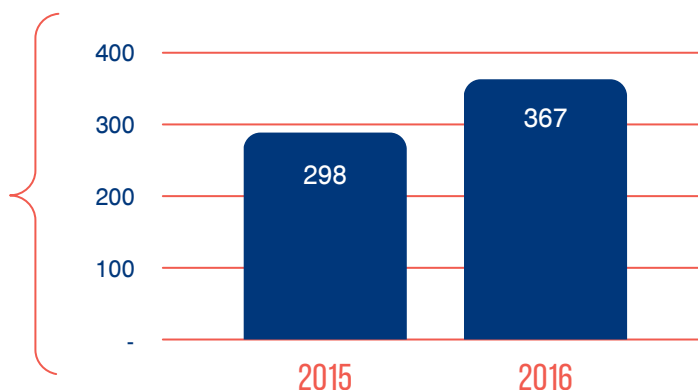


Although the total capital adequacy decreased slightly by 138 bps to 23.34%, this was due to the repayment of the two subordinated term debt agreements in September 2016. On the other hand, the CET1 ratio improved by 116 bps to 23.33% because of the capitalization of the net profit for 2015 and the BGN 107.6 million share capital increase in March 2016 which was fully subscribed by Eurobank Ergasias. The latter helped avoid the negative impact on the capital adequacy of the institution and the Bank retain its capital ratios significantly above the minimum required ones as a result of the acquisition of the operations of the Alpha Bank - Branch Bulgaria.

**Operating Income**

**OPERATING INCOME**

(million BGN)



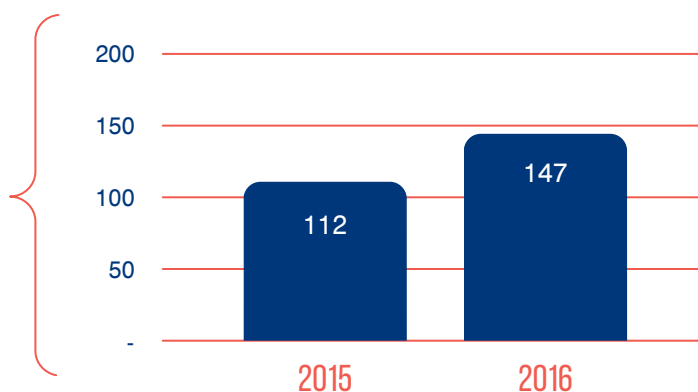
Total operating income rose by 23% to BGN 367 million. More than half of the net increase resulted from the higher net interest income, while the better performance of the fee and commission income added another BGN 10 million to the total. The impact from the finalization of Visa Inc. acquisition of Visa Europe and the sale of a portfolio of non-performing exposures also influenced positively the operating income.

Net interest income improved by 16% to BGN 274 million. Positively, the interest income was kept at the level of 2015, despite the falling rates on the new production, while the interest expenses were reduced by more than half to BGN 31.7 million. Net interest margin improved by 9 bps to 4.2%, a considerable achievement in the current market environment. Net F&C income rose by 17% to BGN 70 million both because of the enlarged customer base and the higher number of transactions. Net F&C income covered 48% of the operating expenses which was lower than the previous year but the ratio was influenced by the acquisition of the operations of Alpha Bank - Branch Bulgaria and it is expected to rebound in 2017.

**Operating Expenses**

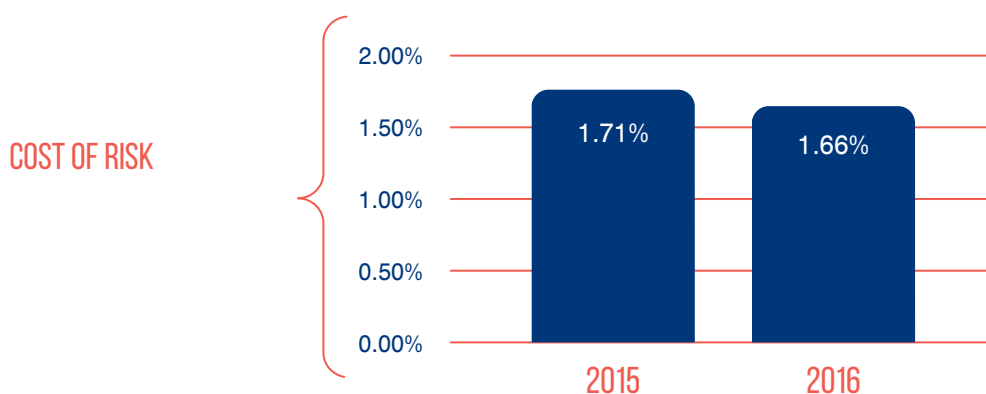
**OPERATING EXPENSES**

(million BGN)



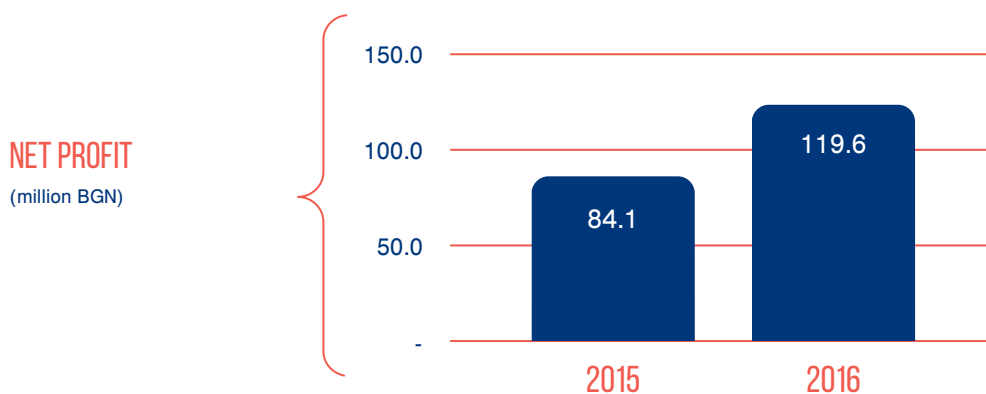
The cost base increased by 31% in 2016 to BGN 147 million as a result of the acquisition of the operations of Alpha Bank - Branch Bulgaria. Part of the increase is attributed to the one-off restructuring costs related to the integration of IT systems, branches rebranding and the alignment of the head office structures, while the other part supported the already bigger institution – both the number of employees and branches rose by 20% YoY. Despite the above, the cost-income ratio stood at the acceptable level of 40.2%.

### Cost of risk



The formation of new loans past due more than 90 days continued to fall throughout 2016. Cost of risk improved by 5 bps to 1.66% of net loans. Provisions for impairment nominally were higher in 2016 (BGN 69.8 million vs. BGN 66.6 million in 2015) which can be explained by the acquisition of the operations of Alpha Bank - Branch Bulgaria. The sale of the non-performing portfolio at the beginning of 2016 also had a positive effect on the quality of the portfolio and at the end of 2016, the loans past due more than 90 days were 15.3% of gross loans – more than 3 pp improvement vs. the previous year. The coverage ratio stood at 58%, allowing a further decline in the non-performing loans in the next year.

### Net profit and profitability



The BGN 119.6 million net profit for 2016 was not only 40% higher than a year before, but also the highest in the history of the Bank. Return on equity was 11.22%, full 1.5 pp above 2015, despite being calculated on a higher base due to the share capital increase and the capitalization of net profit for 2015. Return on assets also significantly improved from 1.41% to 1.83% in 2016. The above was the result of a combination of factors, including the acquisition of the operations of Alpha Bank - Branch Bulgaria, the one-off income effects, the reduction of the cost of funds, the improvement of the quality of the lending portfolio and, last but not least, the higher sales of new loans. Although not all of the factors will be present next year, the Bank has built a solid base for a sustainable growth and even better results in the future.



## SMALL BUSINESS BANKING DIVISION

2016 was marked by favourable customer offers, continuous decrease in loan interest rates and strong competition. At the same time, loan demand by micro-, small- and medium-sized enterprises went up. This way, despite the strong competition, higher demand led to a double increase in the volume of new business loans generated in this market segment.

In 2016, the main objective of Postbank's Small Business Banking Division was to strengthen the Bank's leading role in small business lending. The financial institution focused on micro-, small- and medium-sized enterprises which constantly open new job positions and add value to the economy.

The Bank works closely with customers to fully understand the opportunities, challenges and problems faced by small businesses. The financial institution makes constant efforts to better know entrepreneurs, their business, difficulties and prospects in order to maintain long-term relationship based on trust and understanding. This is why, Postbank aims not only to provide the best credit solutions, but also to be a trusted partner for the years to come.

The Bank offers clients a wide range of banking services such as cash management, transaction in BGN and foreign currency, documentary business, payroll support, POS devices, debit cards etc. The large range of lending and non-lending products helps the clients be more efficient, increase their competitiveness and improve their market position.

Бизнес кредити

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до 95% ФИНАНСИРАНЕ  
ЗА ТВОЯ БИЗНЕС

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25 Postbank  
Приветствие за малките устре

Postbank proved to be a trusted partner of the small and medium business with its participation in the National Guarantee Fund (NGF) program SME Initiative for Bulgaria. The program is a joint instrument of the European Commission, the European Investment Fund and the European Investment Bank. The agreement concluded with the NGF helps farmers in the modernization of their holdings.

In 2016, in the field of lending, the Bank successfully introduced specialized loan products designed for farmers, doctors, dentists, pharmacists and medical clinics.

The Bank further developed its strategy for better service quality with the opening of another 10 specialized Small Business Banking Centres. A total of 20 centres gradually started operating by the end of 2016. The ambition of the team is by the middle of 2017 to increase their number to 22 in the economically most active cities in the country and to provide a predominant share of new loans to small- and medium-sized enterprises.

The Bank launched numerous marketing campaigns, organized meetings with clients in the country and initiated sales initiatives and series of open-doors days to promote its new credit products. Furthermore, the traditional series of conferences – Postbank Meets Business – were successfully conducted in 12 cities in the country.

The Bank's 2017 priority will be to develop its business with medium-sized enterprises in order to increase their stability and boost their growth. The Bank team will continue striving to provide better and new services to farmers, and client-tailored offers to companies applying under European operational programs. Moreover, the Bank's goal is to meet the growing loan demand, thus widening its customer base.

## INDIVIDUAL BANKING AND ALTERNATIVE CHANNELS DIVISION

### Consumer lending

In 2016, the consumer lending market in Bulgaria showed first signs of recovery since the financial crisis. The improved internal business environment, higher liquidity in the economy and rising wages were inspiring confidence and sense of security regarding financial planning among consumers. In addition, the decreasing interest rates and improved access to financing had a positive influence on the demand for financing.

Postbank posted another successful year during which the consumer lending business achieved a double-digit growth. In 2016, the Bank managed to achieve a 33% growth rate in the new volumes of consumer loans, compared to 2015. Innovative financing solutions and services the Bank implemented throughout the year had a significant contribution to the positive results. Some of the best examples are the innovative lending product Different Consumer Loan, and the digital lending solution One Click, both setting new financing standard on the Bulgarian market.

The benefits and the advantages of the Different Consumer Loan were recognized by analysts and Postbank was named National Champion of Bulgaria at the prestigious international competition, European Business Awards. The innovative product is the first consumer loan on the Bulgarian market, that not only enables customers to finance their needs with ease, but also to receive additional cashback bonus up to 10% to the paid interest during the term of the loan. To promote and endorse the product on the market, the Bank organized 3 marketing campaigns, thanks to which the Different Consumer Loan quickly achieved a 23% share of the total sales of new consumer loans.

The product range of the Bank was complemented with the fully digital One Click loan, which provides an alternative and convenient way for financing the Bank's customers. The new product is modern financing solution, which enables customers to apply for consumer loans via video connection with a banking consultant.

Потребителски кредит

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Решения за илюзорното време

Beside the opportunity to receive professional advice in the comfort of their own home, customers could take advantage of submitting their loan application outside of the standard working hours of the Bank.

Postbank continues playing an active role in and supports the development of the social and economic processes in Bulgaria. The Bank is a strategic partner of the Ministry of Education and Science in granting student loans under the provision of the Student and Doctoral-Candidate Loans Act. In 2016, Postbank achieved 79% growth in new student loans compared to the previous year. This result is ranking Postbank the first among the rest of the participants in the program.

To support the appealing loan products, Postbank laid strong focus on its services and especially the option for express credit assessment and disbursement. More and more customers appreciated the benefits of this service, resulting in 74% growth of the incoming applications with express assessment.

The successful products and initiatives further reinforced Postbank's leading position in the area of consumer lending. The Bank improved and optimized a wide range of services and internal processes, aiming at increasing customer satisfaction and performance, thus laying the foundations of even better results in 2017.

## Mortgage Lending

In 2016, the Bank continued being a key player and a trendsetter on the Bulgarian mortgage market. In terms of mortgage market share, Postbank was ranked among the top 3 banks and maintained a stable portfolio mix of new and existing lending customers. Furthermore, during the last five years, the mortgage business line has achieved sustainable growth, regardless of the dynamic market environment and the strong competition. With a substantial increase of 43% YoY, 2016 was the most successful year for the new mortgage business generated by the Bank after the crisis.

This success is supported by Postbank's strategy to develop innovative and customer-oriented products, to focus on financial solutions with added value, as well as to provide excellent service. In 2016, the Bank continued to invest in the above-mentioned key pillars. The financial institution expanded its specialized network of Mortgage Lending Centers by adding six new locations, thus reaching the total number of 15 centers throughout the country.

The strong business results are even more impressive when the challenging environment in which they were achieved are taken into consideration. The acquisition of the operations of Alpha Bank - Branch Bulgaria was carried out during the same period. It was of utmost importance to execute faultlessly the operational merge and to ensure smooth migration of Alpha Bank's mortgage portfolio to Postbank. The task was performed successfully within a very tight deadline. At the same time, 2016 was marked by significant legislation changes. Postbank managed to implement efficient strategy for comprehensive and timely adjustment of its mortgage business to the new legislation.

In 2016, mortgage business was also influenced by the dynamics of the local real estate market. In the context of nearly zero deposit interest rates and limited alternatives for investment, the demand for real estate purchases continued to rise, especially in big cities. On the other hand, according to the National Statistics Institute data, the new housing buildings were 3.9% less compared to 2015. The limited market affected the mortgage business to some extent due to the shortage of new properties which could be purchased with housing loans.

In 2016 interest rates on new housing loans continued following a downward trend. As a result of the high liquidity in the banking sector and of the decreased interest rates, the competition between the Banks got more intense. In this challenging environment, Postbank managed to retain the existing mortgage portfolio volumes, as well as to produce its best post-crisis results in new mortgage business.

## Card Business

In 2016, Postbank focused on the quality and uniqueness of products and services offered to customers. Credit card holders had the opportunity to take advantage of many attractive and money-saving shopping offers. During the year the team continued encouraging installment purchases through several very successful promotional campaigns offering interest-free installments to vendors such as Technopolis, Praktiker, Technomarket and Zora. Two cash back campaigns were also carried out with IKEA.

The Bank continued developing MyRewards loyalty programme for credit card customers. In 2016 alone loyal customers received generous monetary rewards totalling over BGN 1.5 million.

In January 2016, the team included Mastercard Standard and Mastercard World contactless credit cards in the rich card portfolio and in August started a replacement of all Visa Classic and Visa Gold credit cards with contactless ones.

In May 2016, Postbank successfully completed the acquisition of the operations of Alpha Bank - Branch Bulgaria, which further strengthened its position as a leader on the credit and debit card market. All implemented initiatives led to a 4% increase in the total turnover from credit cards and to a 6% increase in the number of new credit cards in 2016. The turnover from debit cards increased by 18% for the same period and the turnover via Postbank POS devices – by 11% compared to 2015.

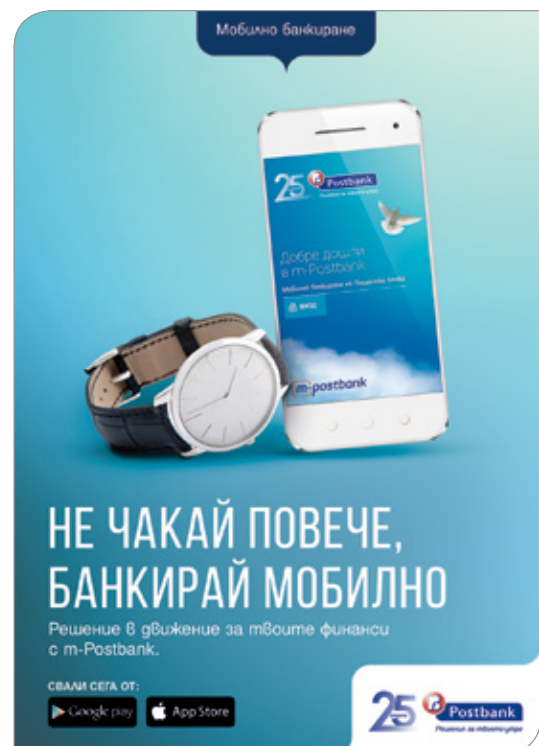


## Digital Banking

During 2016, the Bank made a strategic change in the organizational structure of the Individual Banking and Alternative Channels Division. A new department, called Digital Banking, is in charge of the digitalization development, including all types of digital channels and services offered by the Bank. The change is following the strategy for digital transformation on a Group level, by putting more focus and emphasize in this area.

At the beginning of May 2016, the Bank launched its mobile banking application, called m-Postbank. The new app started with all the basic features available in the internet banking and in December 2016, the functionality of transactions to third parties was added. Until the end of 2016, m-Postbank managed to generate 19,000 downloads and register the highest rating among the rest of the mobile banking apps in Bulgaria – 4.5 in Google Play and 5 in App Store.

Thanks to all activities for accelerating the usage of the digital channels, the Bank registered an increase of 19% in the average number of customers transacting via e-banking, which resulted in 14% more transactions in terms of amount during 2016, compared to 2015.





## Customer Service Quality and Lean Management Department

2016 proved to be a dynamic and successful year for the Customer Service Quality and Lean Management Department. Thanks to the resolute efforts in improving customer experience, the Bank team is more confident than before that such activities should not only continue, but also be developed.

In 2016, the emphasis fell on finding large-scale solutions to answer the need of the customers and the requirements of the Bank's management to enhance customer experience in the branches.

The Bank selected and started the implementation of a variety of strategic projects, due to show their fruitful results throughout 2017. The final result of these projects will save time and costs, and will support the branch transformation into an innovative and modern place to do business in, and will elevate customer experience.

## WHOLESALE BANKING SECTOR

For the Wholesale Banking Sector in Postbank 2016 was marked by two key events – the acquisition of the operations of Alpha Bank - Branch Bulgaria, the asset quality review and stress tests of the BNB. The very successful finalization of both led to an increase in the profit generating assets, deposits and net margin of the unit.

For a consecutive year, the Wholesale Banking Sector team proved to its clients it can deliver innovative solutions and high-quality services.

### Corporate Banking Division

Postbank's Corporate Banking Division services companies with annual sales turnover of over BGN 3 million. Both Large and Medium Corporate Clients departments operate within this structure. They provide specialized business solutions directly from the Head Quarter (HQ) of the Bank or through a well-developed network of 9 Corporate Business Centers throughout the country.

In 2016, a new unit was set up within the structure of the Corporate Banking Department - Project Financing. The department is specialized in analysis and financing of projects with budget of over EUR 10 million.

During the year, Corporate Banking Division managed to distribute more than EUR 260 million new credits, EUR 150 million out of which was disbursed by Large Corporate Clients department to leading Bulgarian companies from various sectors of the economy.

EUR 110 million was provided to support the medium business segment. In order to ensure optimal regional coverage of the offered services for medium-sized companies, the network of Corporate Business Centers was expanded, adding two more points of service. The two new business centers – one in the city of Pleven and our second business center in the capital of the country, Business Center Sofia HQ, are actively supporting the unit.

Established at the end of 2015, the EU Funding section was also very active during 2016. The team of the EU Funding section supported granting of various loans to the agricultural sector, loans under Bulgarian Development Bank's program, Napred, as well as loans under the EIF-provided SME Initiative program.



Thanks to all these initiatives, as well as the high professionalism and innovative ideas of its employees, the Corporate Banking Division managed to double its net profit after provisions in 2016 and set even more ambitious targets for 2017.

## Corporate Transactional Banking Department

During 2016, the Corporate Transaction Banking Department focused on cost optimization, efficiency and successful pricing strategies, which resulted in significant improvement of the unit's profit indicators. Based on the long-term balanced strategy for deposit structure optimization and cost-of-funds reduction, for a consecutive year the department realized significant growth not only in terms of profit, but also in terms of current accounts and term deposits balances.

A new section was created within the structure of the Corporate Transaction Banking Department, responsible for improving the quality of servicing of corporate clients, both in the Head Quater, as well as in Postbank's branch network. In 2016, the Digital Banking and Service Quality section initiated and managed a number of projects related to the improvement of the e-banking service for companies.

The Factoring section, also part of Corporate Transactional Banking Department, traditionally continued scoring significant success. In 2016, Postbank kept its leading position on the market for a 3<sup>rd</sup> consecutive year, being Factor number one in Bulgaria with a market share of 36% from the volume of all factoring services in the country.

## Capital Markets Division

In 2016, Postbank strengthened its leading role on the local capital market. In the light of an extremely dynamic and challenging market environment, the Bank succeeded to expand the range of its financial products and services. As a result, the financial institution increased its client base and confirmed its position as preferred partner for FX and security trading with local and foreign clients.

## Asset and Liability Management

In 2016, the main focus area of the Asset and Liability Management unit was the strategic management of Bank's assets and liabilities aiming at improving the profitability of the Bank and optimizing the structure of the liquidity buffers. Throughout the year the Asset and Liability Management department successfully managed the Bank's overall risk exposures arising from its balance sheet structure. As a result of the prudent liquidity management, the Bank maintained solid liquidity buffers and liquidity ratios above the regulatory thresholds through the entire year. The utilization of the accumulated liquidity for extending new lending to clients remained a priority for the Bank.

In 2016 Postbank signed a EUR 70 million Guarantee line with the European Investment Fund (European Investment Bank group - EIB) under the SME Initiative Bulgaria programme. The SME Initiative is a joint instrument of the European Commission and EIB group that provides risk sharing and capital relief through uncapped portfolio guarantee by EIF. In the following two years, under the programme, the Bank will extend loans to its customers – micro - small- and medium-sized enterprises, at preferential terms and servicing.

A guarantee agreement was concluded also with the National Guarantee Fund (Bulgarian Development Bank group), which successfully complemented the Bank's portfolio to offer better access to finance and improved conditions to SMEs in Bulgaria.

## Treasury Sales

After the successful acquisition of the operations of Alpha Bank - Branch Bulgaria in 2016 and the expansion of the customer base, the Treasury Sales Department continued to strengthen its leading positions both in FX operations and the offering of a variety of financial products.

The volume of the attracted deposits from institutional customers doubled in 2016, increasing the Bank's market share in this segment, while marking a significant decrease in the cost of the attracted funds. Besides, in 2016,

the Treasury Sales Department successfully started offering structured products for large institutional clients.

The Brokerage section, which became part of Treasury Sales Department in 2015, contributed to the stable position of the Bank as one of the most active investment intermediaries on the Bulgarian Stock Exchange (BSE). The Bank continued holding leading positions in the number of traded deals on the BSE amongst the commercial banks in 2016. The Bank is privileged to have the highest 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

For a consecutive year, Postbank remained among the most active players on the bond market. The department actively managed the size and risk of the Bank's fixed income portfolio, seizing substantial trading gains and capitalizing interest income. In 2016, the Bank managed to further boost flows from foreign government and corporate bonds, leveraging on trading lines and contacts with leading international banks and brokers. The financial institution increased by 10% on an annual basis the size of its fixed income portfolio in 2016, taking advantage of the market conditions of "ultra-low" interest rates, falling bond yields and excess liquidity.

## Custody

In 2016, Postbank preserved its leading position as a depository bank to 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 now, Postbank has been offering safekeeping of all types of local and foreign securities with access to more than 100 international markets. Postbank remained the exclusive custodian and security service agent to the biggest European Central Securities Depository – Clearstream Banking Luxembourg. For the last six years, Postbank has been prized as a "top rated" custodian by the reputable *Global Custodian* and *Global Investor* issues.

## Private Banking and Mutual Funds Department

In 2016, Postbank launched a new personalized and exclusive service – Private Banking. The highly qualified team of experts provide strategic financial planning solutions, focusing on stable long-term return, transparent management and immediate liquidity.

In this respect, the first modern Private Banking Centre was opened in Sofia on 30 Tsar Ivan Shishman Str. There, in partnership with Eurobank Private Bank Luxembourg S.A., the Bank offers impeccable and comprehensive service to its partners, alongside with carefully selected and combined banking and investment services.

Postbank is the only Bank operating in Bulgaria, combining a proven business model with streamlined and structured access to leading financial hub - Luxembourg and 100% Wealth Management Services provided in cooperation with Eurobank Private Bank Luxembourg S.A.

With respect to the mutual funds distribution, 2016 proved highly successful, as net assets increased by 23% compared to the previous year. In March, a new fund in EUR was launched – Absolute Return Fund, and in September, two new combinations in USD were added to Bundle Products (combination of term deposit and investment in Mutual Funds).

The active trainings of the Branch Network team continued throughout the year in good cooperation with Personal Banking and Deposits.



## **GOVERNMENT STRUCTURE AND RISK MANAGEMENT**

Postbank attaches great importance to good corporate governance, taking into account its contribution to both business and accountability. The Bank adheres to the best corporate practices, legal principles and code of conduct.

### **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's 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 Statute 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 the shareholders holding more than half of the total number of the shares of the Bank are present and/or represented at the same time. In case of no quorum, another meeting is scheduled within a month.

Resolutions are reached by simple majority. Regarding 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 Chairperson, 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 the 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, submitted to them by the boards and their committees, statutory publications in the Commercial Register, etc.

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

#### **Management Board**

The Bank is managed and represented by the 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 about all significant issues 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 three to nine 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 2016, 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 the appointment of the Management Board members to the respective position on the Board.

- Mrs. Petia Dimitrova – Chairperson of the Management Board and Chief Executive Officer;
- Mr. Dimitar Shumarov – Member of the Management Board, Executive Director and Chief Financial Officer;
- Mr. Asen Yagodin – Member of Management Board and Executive Director;
- Mr. Iordan 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 executive directors. Mrs. Milena Vaneva, Head of Legal Division at the Bank, was appointed as Procurator in 2011 upon the announcement of the BNB's preliminary approval of her appointment as the Bank's procurator. As such, she represents the Bank always acting jointly with any of the Bank's executive directors and has powers to perform all and any action or transaction related to performing the Bank's business activities, to represent the bank, to authorize third parties to perform specific activities, as well as to dispose of and encumber the Bank's real property.

The Management Board holds regular monthly meetings. As per the Bank's statute, the Management Board holds meetings no less frequent than once a quarter, or, if necessary, more often, given that a written notice is sent at least seven days in advance.

The meetings of the Management Board are considered validly convened and a quorum is formed when at least half of its members are present, either in person or represented by another member. Decisions are taken by simple majority if the statute or the law do not require a greater majority. Management Board meetings minutes are kept in a special book and signed by all the members present at the meeting and by the corporate secretary of the Bank.

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 is responsible for the daily management of the Bank. It considers all issues pertaining to the current activities of the Bank and adopts decisions on them in order 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's primary responsibility is advising the Management Board on strategy for the 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 exerts overall control on the Bank's business and financial activities and oversees the process of the compliance 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, 2014 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 convenes regularly, however, no less frequently than once a quarter, or, if necessary, more often, given that a written notice is sent at least seven days in advance.

The meetings of the Supervisory Board are considered validly convened and a quorum is formed when at least half of its members are present, either in person or represented by another member. Decisions are taken by a simple majority if the statute or the law do not require a greater majority. Supervisory Board meetings minutes are kept in a special book and signed by all the members present at the meeting and by 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 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:

- control and prevention against using the Bank for money laundering and terrorism financing;
- monitoring of staff adherence to internal rules, including Code of Conduct and Professional Ethics;
- carrying out investigations in response to requests by regulatory and other authorities, providing them with information and co-operation in order to facilitate their work;
- assisting and advising the management on the prevention of fraud, illegal and unethical practices;
- addressing 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 implementation 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 2016, 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 47.12%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V., 9.02% by CEH Balkan Holdings Limited and 0.01% of the share capital is owned 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 its 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 the day-to-day business and in the strategic management of the 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 conflicts of interest at all levels, including the Management Board, Senior Management, as well as among its customers and shareholders.

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 the 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. It 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 and thus reduces 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 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 2016, 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 2016, 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 40.12% 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 2015, stood at 541%. 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 the 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 possible impact).

All aforementioned programs 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 AUDITOR'S 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 2016, 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 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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.

### Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Annual Activity Report and the Corporate Governance Statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act but does not include the financial statements and our auditor's 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**

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report and the Corporate Governance Statement, we have also performed the procedures added to those required

under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016 and approved by its Management Board on 29 November 2016. 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 the Public Offering of Securities Act (Art. 100(m) of POSA, if applicable) applicable in Bulgaria.

### ***Opinion in Connection with Art. 37, Paragraph 6 of the Accountancy Act***

Based on the procedures performed, our opinion is that:

- a) The information included in the Annual Separate Activity Report referring to the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- b) The Annual Separate Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- c) The Corporate Governance Statement referring to the financial year, for which the separate 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.

### **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.

### **Auditor's 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 auditor's 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 auditor's 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 auditor's 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.



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**Milka Damianova**  
Registered Auditor

30 March 2017  
Sofia, Bulgaria



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**Stefan Weiblen**  
PricewaterhouseCoopers Audit OOD

# ANNUAL DIRECTORS' REPORT

The management presents the Annual Activity Report as of 31 December 2016.

## BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) was incorporated and is based 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 Str, 1766 Sofia, Bulgaria.

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

## BUSINESS OVERVIEW

### Macroeconomic Environment

The world economy went through another difficult year with global growth expected to be about 3%. Low level of investments, weak trade and rising political uncertainty contributed to the stagnant growth. The second half of the year saw improving prospects in some of the major economies, such as the USA and the UK, however, the picture in the emerging economies was much more diverse. Growth in China and India declined in 2016, while Brazil and Russia were coming out of the recession. The prospects for the next two years are improving for the major economies and global growth is expected to reach 3.4% and 3.5% in 2017 and 2018 respectively. Positive influence is expected from the continuous fiscal stimulus in China and the expected one in the USA. At the same time, downside risks include the political uncertainty in some of the major economies, low commodity prices, as well as increasing call for more protectionism.

The EU economies are still struggling to recover and although the EU GDP is higher than before the crisis, growth is expected to remain stagnant in the following years. In 2016, the GDP of the EU countries is expected to grow by 1.8%, while in the Eurozone it will be slightly lower at 1.7%. The forecast for the next year is growth to deflate somewhat to 1.6% and 1.5% respectively before rebounding in 2018. The European economy gained from one-off factors, such as low energy prices and the depreciation of the euro which boosted exports, but these will no longer be available in the near term. Domestic demand will contribute strongly, supported by the improving job prospects and a moderate wage growth. Unemployment rate finished at 10.1% at the end of 2016, but will decline relatively fast to 9.2% by 2018.

While the decision of the UK to leave the EU did not cause any immediate damage to growth, the effects will be felt as the negotiations progress is in earnest. Investments remain on the low side reflecting the low demand and the fact that some countries are still struggling to deal with the legacy of nonperforming loans. The monetary policy remains accommodating as ECB extended its Asset Purchasing Program until the end of 2017 and kept the negative interest rates. However, with inflation picking up from 0.4% in 2016 to 1.4% in the next two years, ECB might face some pressure to start increasing the rates.

After the jump in 2015 when GDP increased by 3.6%, the Bulgarian economy could not replicate its success in 2016 although the macroeconomic framework remains robust. Growth was 3.4% in the last quarter of the year, a respectable result given that many of the one-off effects which contributed to the growth in 2015 were not present last year. The most notable event is the drop in investments which were negative in 2016. After the accelerated absorption of the EU funds before the end of the programming period at the end of 2015, the rate

of investments for the new programming period remained low. In total, gross fixed capital formation was -1.5%, well below the 2.7% in 2015.

The driver of the economy in the last quarter of 2016 was the external sector which grew by 9.1%. After a weak start in the first two quarters of the year, exports recovered strongly in the next two, while imports were much lower than in 2015. Consumption continued to disappoint growing by just 0.9% in Q4 2016 despite the falling unemployment rate and rising disposable income. The public consumption was negative due to the conservative fiscal policy at the beginning of the year, which led to record budget surpluses only to be followed by a spending spree at the end of the year. The gross value added increased by 3.1%. The sectors with the biggest contribution were agriculture (7.1%) and real estate (6.4%). The financial and insurance sectors, as well as information and communication also performed strongly, growing by 3.0% and 2.5%.

In total, exports increased by 2.6% in 2016 to BGN 46.1 billion. In the first half of last year, the growth was negative, as exports to third countries shrank by more than 20% due to the crises in the main trading partners such as Russia, Ukraine and Turkey. It began to recover in the following months but was still 5.9% down for the full year. This was fully compensated by the trade with the EU countries to which Bulgaria exported 7.2% more goods and services than in 2015. The biggest increase came from the manufactured goods which is a very positive sign that the Bulgarian economy is moving up the value chain and exporting more final products rather than raw materials. Imports also saw a sharp decrease at the beginning of the year and Bulgaria imported 1.1% less (CIF prices) in 2016 than in 2015 entirely due to the lower import of mineral fuels and oils.

Foreign direct investments in 2016 decreased by 40.3% YoY to EUR 684 million. Equity investments showed the biggest drop by 80% to EUR 222 million although this could be partially explained by the large investment which was completed in the Q3 of 2015. Reinvested profit decreased moderately by 7% to EUR 638.5 million, while debt instruments were actually negative at EUR 178 million. The biggest share of investments came from Luxembourg (EUR 136 million, 19.9% of total), followed by the Netherlands (EUR 128 million, 18.8% of total) and the UK (EUR 118 million, 17.3%).

Consumer price index turned positive for the first time in the last four years. The annual inflation rate was 0.1% in December 2016 as the prices of energy and food started to rise in the second half of the year and could no longer compensate the rising prices of the services. The prices with the highest increase for the year were education (3.4% YoY) and alcohol and tobacco (2.4% YoY). On the other extreme were the prices of communication (4.8% decrease YoY) and furnishing (2.0% decrease), while food prices rebounded strongly in the last month of the year reaching 1.1% on an annual basis. Inflation is expected to keep rising and reach 1.5% at the end of the year driven by the higher prices of food, energy and excise goods.

The labour market is recovering faster than expected and some sectors are already experiencing a shortage of qualified staff. In 2016, unemployment rate fell by 2 pp to 8.0%, the lowest since 2008. Employment ratio among the age group 15 - 64 rose to 64.2%, very close to the highest level since 2003. However, worsening demographic trends mean that the number of employed is some 400 thousand people below its peak.

The number of unemployed fell to 261 thousand, levels last seen at the end of 2009. The recovery is not uniform throughout the country – in the biggest cities unemployment rate was around 5%, while in some areas (mostly in northwest and northeast) it was still above 25%. Although falling in the last two years, unemployment rate was still the highest among the youngest age group 15-24 – reaching 22.0%, which is also higher than the average for the EU. The pressure on the labour market caused a rise in wage levels. In the last year, the average wage rose by 8% with some sectors (trade, entertainments and IT) rising up by double digit rates.

After years of running fiscal deficits the budget finished with a surplus for the first time since 2008. The surplus was BGN 1.47 billion (1.6% of GDP) which came from a deficit of BGN 743 million from the national budget and a surplus of BGN 2.21 billion from the European funds. Stronger revenues and lower capital expenditures than initially planned are behind the surplus. The revenues increased by 5.4% (BGN 1.75 billion), compared with the previous year with almost half of the contribution (BGN 813 million) coming from VAT which grew by 10.5% on

an annual basis. Income taxes benefited from the rise in salaries and the employment rate, and added another BGN 441 million to the surplus (9.6% higher than in 2015). On the other hand, capital expenditures for the year were BGN 1.98 billion, or just 79% of the annual plan. The budget also gained from the lower interest payments which were below 90% of the budgeted amount, saving some BGN 80 million.

At the end of 2016, the government debt was EUR 13.76 billion (29.4% of GDP) rising from EUR 11.64 billion at the end of 2015 (25.7% of GDP). In March 2016, the Bulgarian government issued EUR 1.99 billion 7- and 12-year bonds with record low yields. Still, Bulgaria has the third lowest government debt among the EU countries and will not issue any external debt in 2017.

The credit rating of the country was confirmed by two of the major credit rating agencies Fitch (long-term rating of BBB- in foreign and local currency with stable outlook) and S&P (long-term rating of BB+ in foreign and local currency with stable outlook), while Moody's did not have an update in 2016 and the credit rating remained unchanged – Baa2 in foreign and local currency with stable outlook.

## Banking system

The Bulgarian banking system had probably the most successful year since the end of the crisis. The major challenges during the year – the Asset Quality Review (AQR) and stress tests conducted by BNB, were successfully passed, confirming that the system is in good shape and resilient to shocks. The average CET 1 ratio of the 22 local banks as of 31 December 2015 before the AQR adjustments was 20%, while in the adverse scenario at the end of the third year after the AQR adjustments, the CET 1 ratio was estimated at 14.4%, which is even above the minimum required ratio for business in usual conditions.

The system remained well-capitalized – the total capital adequacy ratio of Bulgarian banks increased from 22.2% at the end of 2015 to 22.8% as of 30 September 2016.

The deposit-driven growth of the banks continued. Total assets increased by BGN 4.57 billion (5.2% YoY) to BGN 92.1 billion, while the deposits of clients other than credit institutions grew by BGN 4.85 billion (7%) to BGN 74.1 billion. The bigger part of the increase still came from households (BGN 2.8 billion new deposits in 2016).

The saving rate has been gradually declining over the last two years - clients are looking for more attractive investment opportunities for their savings, which is indicated by the renewed interest in the real estate market and the rise of the assets of investment funds.

The inflow of deposits created a significant new liquidity that could not be absorbed by lending and was held as liquid assets. The liquidity ratio improved from 36.7% to 38.2% in 2015-2016 with banks holding liquid assets in over the regulatory minimum required, totalling BGN 30.3 billion as of the year end. This drove further down the interest rates on deposits and at the end of December, the average interest rate on household deposits was about 0.5%, while companies' deposit interest rate fell below 0.2%.

The above translated into lower rates on new loans, as banks were trying to find more profitable use for their liquidity – a process also encouraged by the introduction of negative interest rates on excess reserves by BNB at the beginning of the year. Lending increased modestly – gross loans rose by BGN 350 million (0.6% YoY) to BGN 54.46 billion. Loans to non-financial companies decreased slightly by BGN 105 million to BGN 33.18 billion and consumer loans by BGN 40 million to BGN 8.68 billion. Mortgage loans rose by BGN 8 million to BGN 8.77 billion with the rest of the delta coming from financial companies, other loans and the government.

However, hidden behind these numbers is the fact that the banks were actively cleaning their portfolios, writing off and selling non-performing loans. Performing loans increased by BGN 1.41 billion, while non-performing exposures fell by more than BGN 1 billion. As a result, the NPE ratio decreased by 2 pp in 2016 to 18.3%, while the NPE coverage improved by 1.4 pp to 52.9%.

The decrease of rates on the new loans continued to erode banks' interest income. Interest income was down



9% to BGN 3.32 billion although this was fully compensated by interest expenses which dropped by 42% to BGN 511 million. As a result, net interest income (BGN 2.81 billion) was slightly higher than in 2015. Total income decreased by 3% to BGN 4.08 billion, however, it was influenced by two major factors such as the impact of the finalization of Visa Inc. acquisition of Visa Europe transactions and the related payment of an up-front cash consideration, and issue of preferred stocks which was recorded as an one-off gain by Bulgarian banks (positively), and the booking of the costs for the Deposit Insurance Fund and Bank Restructuring Fund (negatively), which previously were part of the administrative expenses. The latter is also the reason behind the decrease in the non-interest expenses which fell by 10% to BGN 1.83 billion.

With the non-performing exposures on a downward trend banks were able to reduce the provisions for impairment. Compared with 2015, provisions were down by 26% to BGN 814 million, the lowest since the crisis. All of the above helped propel net profit by 40% to BGN 1.26 billion and the return on equity to 10.4%.

### **Major changes in the regulatory environment**

In July 2016, the new Law on the credits for immovable properties of consumers came into effect, transposing Directive 2014/17/EU. The law aims at ensuring that all consumers, who take out a mortgage to purchase a property, are adequately informed and protected against risks. It also gives the right to consumers to repay their loans early, thus benefiting from a reduction in the total remaining cost of the mortgage. In such cases, lenders are entitled to fair compensation for any costs directly and exclusively linked to early repayment.

In September 2016, the amendments to the Law on Payment Services and Payment Systems came into effect, transposing Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. Banks are obliged to provide their clients with a payment account with basic features and transparent fee information, as well as to facilitate the payment account switching.

In December 2016, the BNB Governing Council identified 10 banks as other systemically important institutions (O-SIIs) and set the level of the buffer applicable to the total risk exposure. The level of the buffer is set at 0% for 2017 and will rise incrementally until 2020 to between 0.5% and 1% of the total risk exposure amount depending on the profile of the bank.

### **Eurobank Bulgaria performance and key indicators**

The past year was most successful for the Bank, delivering a net profit of BGN 119.57 million, or a 11.22% return on equity. The result was due to a combination of factors, including the acquisition of the Alpha Bank - Branch Bulgaria, higher sales of new loans, measures to expand the sources of income and reduction of the cost of funds, as well as lending portfolio quality improvement.

Total assets increased by BGN 1,065 million (18.5% YoY) to BGN 6,818 million, with deposits from customers having the biggest contribution – BGN 919.5 million (20% YoY) to BGN 5,524 million. About half of the net deposit delta came from Alpha Bank - Branch Bulgaria but even if this effect is not taken into account, the deposit growth outpaced the market. Corporate deposits rose by nearly 60% to BGN 1,094 million, while retail deposits were up by 13.3% to BGN 4,430 million.

The Bank is fully self-funded with deposits from clients constituting 98% of all attracted funds and has a strong liquidity buffer-liquidity ratio improved by more than 9 pp to 40.12%. Debt issued and other borrowed funds decrease by BGN 82 million because of the repayment of the two subordinated term debt contracts in September 2016.

Net loans increased by 8.2% to BGN 4,214 million. Two opposing factors influenced the volume of gross loans in 2016 – the acquisition of the branch of Alpha Bank in Bulgaria on the positive side and the sale of non-performing loans in the opposite direction. At the beginning of 2016, Eurobank Bulgaria sold a portfolio of

unsecured consumer loans and credit cards of BGN 140.1 million with impairment of BGN 121.9 million, realizing a positive gain from the transaction. Because of this, the consumer lending portfolio decreased by BGN 58 million to BGN 648.4 million. Mortgage loans portfolio increased by BGN 239 million, while the SBB loans remained almost flat at BGN 713 million. The corporate portfolio was under increased pricing pressure from the main competitors, nevertheless, it was up by BGN 42 million to BGN 1,695 million. The quality of the loan book is improving with loans past due more than 90 days down by 3.2 pp. to 15.3%. The coverage ratio fell by 5 pp to 58% but again this is fully attributed to the sale of the non-performing loan portfolio.

The improving macroeconomic outlook increased the demand for new retail loans which was met with adequate offers from the Bank. In 2016, the number of newly disbursed loans in the retail segment was up by a third, while the disbursed amounts were 50% higher than in 2015. The better sales results were supported by the enlarged branch network which consisted of 174 retail locations at the end of 2016, (2015:144), including nine specialized mortgage and SBB Centers (2015: 7).

Eurobank Bulgaria has enough capital to pursue strong organic growth. In 2016, the CET 1 ratio improved by 1.15 pp to 23.33% because of the capitalization of 2015 net profit and the BGN 107.6 million share capital increase in March 2016 which was fully subscribed by Eurobank Ergasias. The latter helped avoid the negative impact on the capital adequacy of the institution and the Bank retain its capital ratios significantly above the minimum required ones. After the successful completion of the AQR and the announcement of the results, in September 2016, the Bank obtained permission by the BNB to repay the remaining two subordinated term debt contracts of BGN 97.8 million, optimizing the structure of attracted funds and decreasing interest expenses. The net AQR adjustments of BGN 44.55 million were fully covered by the impairment booked in 2016 and the surplus capital above the regulatory requirements which at the end of 2016 stood at nearly BGN 405 million.

Interest income was under pressure from the increased competition on the market. Nevertheless, the acquisition of Alpha Bank - Branch Bulgaria and the increased sales helped stabilize the interest income at 2015 levels. At the same time, the ample liquidity allowed for a further reduction of the cost of funds – interest expenses fell by 53% YoY to BGN 31.7 million, resulting in a 16% increase of net interest income. Net interest margin was thus successfully defended and stood at 4.2% in 2016. Net fee and commission income increased by a similar rate (17% YoY) as the enlarged client base is banking more actively. Total income was positively influenced by one-off gains from the finalization of Visa Inc. acquisition of Visa Europe transactions and the sale of a portfolio of non-performing exposures, and rose by 23% to BGN 366.7 million. Cost-to-income ratio worsened slightly to 40.2% (2015: 37.8%) because of the higher cost base and integration expenses for the acquisition of Alpha Bank - Branch Bulgaria. Provisions for loans impairment (BGN 69.76 million) were higher than in 2015, reflecting the increased lending portfolio, still provisions for net loans ratio remained stable.

### Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2016.

### 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 is the fifth bank in Bulgaria in terms of assets, has a large branch network across the country, and considerable customer base of individual customers, companies and institutions.

Postbank has a 25-year presence among the banking market leaders in Bulgaria. It has been a leading factor in innovations and a trend setter in the banking sector in the country 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. It is among the market leaders in credit and debit cards, home and consumer lending, savings products, and products developed for corporate customers – from small companies to large international corporations represented in the country. The bank has one of the best-developed branch networks and modern alternative banking channels.

In March 2016, Postbank acquired the operations of Alpha Bank - Branch Bulgaria, which was yet another step towards strengthening its position as a market systemic bank and the expansion of its customer base. The operational merging was completed in the record short time of three months and at the end of May, customers already used all the benefits of the bigger bank. The acquisition of the operations of Alpha Bank - Branch Bulgaria was a key event for the entire banking market. It was the first landmark deal in the ongoing process of consolidation, which is expected to bring even more stability and security in the banking system in the country.

The results of the asset quality review (AQR) of the Bulgarian banking system, completed in August 2016, showed that Postbank is well-capitalized and financially stable. According to the AQR and stress test results, published by the BNB, the Bank's Common Equity Tier 1 capital (CET1) ratio is 19.7% even in the conditions of an adverse scenario. The combination of a strong capital position, high liquidity and AQR and stress test results allowed Postbank to work towards its goals for achieving sustainable growth in the long term.

In June 2016, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's BB+ long-term rating, a short-term rating of B, and changed the outlook from stable to positive. Again in June, the Bank was awarded also national long-term rating of A-(BG), with positive outlook, which is improvement from the BBB+(BG), with stable outlook, from the previous monitoring in January 2016.

In 2016, Postbank celebrated its 25th anniversary on the Bulgarian market by offering its customers special offers for the jubilee. Moreover, the Bank continued introducing its customer-oriented model by offering service in specialized centres and through modern online channels, to be further developed in 2017.

In June, Postbank opened its first Private Banking Centre in Bulgaria in partnership with Eurobank Private Bank Luxembourg. It offers customers of the bank, who fit the respective profile, a range of investment services in discretionary asset management, wealth management and business consulting.

Once again, Postbank was the only financial institution from Bulgaria to reach the finals of the international competition for best practices and excellent business achievements – European Business Awards. The Bank won its third consecutive award in the Innovations in Business category for the innovative Different Consumer Loan, which offers customers the chance to receive back some of the interest on the loan. Furthermore, the Bank offered many products and services alongside its consumer loans, providing extra added value.

In 2016, Postbank reported its best year in consumer lending in the post-financial crisis period with the considerable growth of 32 % of new loans.

In 2016, the Bank reported an increase of over 40% in loan applications submitted by entrepreneurs in the country from all economic sectors. For the third consecutive year, Postbank's efforts were assessed by the European Bank for Reconstruction and Development through the award Most Active Bank in Bulgaria in Commercial Financing.

Postbank also received two prestigious STP Excellence Awards for high quality of foreign currency transactions in EUR and USD for 2015, awarded by Deutsche Bank – the Bank's long-standing partner in correspondent banking.

In September, Postbank signed a new agreement with the National Guarantee Fund (NGF), a subsidiary of the Bulgarian Development Bank (BDB), for the second guarantee programme for agricultural producers, which is implemented with the financial support of the Ministry of Agriculture and Food. In 2016, Postbank registered considerable year-on-year growth of over 25% of issued loans both to the agricultural sector and the other economic sectors.

Postbank retained its leadership position in purchased receivables on the factoring services market for a third consecutive year, and it is Factor number one in Bulgaria with a 35% market share of the overall factoring services volume and with an over 68% share of export factoring. The Bank attracted both new corporate customers and new counterparties for its current customers, building a strong profitable portfolio.

Throughout the year, Postbank continued organizing the series of specialized conferences, called Postbank Meets the Business, in support of the business in the country. In 2016, the Bank's team visited Pleven, Russe, Veliko Tarnovo, Stara Zagora, Lovech, Sliven, Blagoevgrad, Pernik, Kyustendil, Shumen, Razgrad and Dobrich. At the meetings there, the Bank's experts presented to the local business representatives strategic solutions in support of the business in the respective regions.

## NEW PRODUCTS

In 2016, Postbank introduced more innovative products, focusing on offering convenience and additional benefits to the customers.

The Bank presented a new type of product – Different Consumer Loan, with which it imposed new standards in the consumer lending in Bulgaria. After the success of the innovative Saving Mortgage Loan, developed by the Bank, the Different Consumer Loan was yet another modern offer, which established the financial institution as a factor in setting new trends in the banking sector. This innovative product allows customers not only to finance their needs at favourable conditions, but also to receive back some of the interest rate paid throughout the loan term.

Saving Mortgage Loan is one of the most successful products of the financial institution that has won several international awards in prestigious competitions, including the European Business Awards and Effie Bulgaria. The key advantage of the product is the option to automatically lower the interest rate depending on the amount of funds deposited in the Bank, and in 2016, it was offered with even more favourable conditions.

In 2016, the Bank changed the organizational structure of its Individual Banking and Alternative Channels Division. The newly created department in the Division, called Digital Banking, is responsible for the digitalization of the banking products, including all online channels and services, offered by the Bank. At the beginning of May 2016, Postbank presented its modern mobile banking application, m-Postbank. By the end of 2016, the application generated 19,000 downloads and registered the highest rating among the mobile banking apps in Bulgaria.

In July, Postbank launched an entirely new product on the Bulgarian market – the online video loan, One Click. It allows customers to receive free of charge online video consultation via Skype from the Bank's experts who can fill in the loan application even during the conversation. The Bank commits to give a quick reply within two hours after the submission of the loan application, within the office hours. This alternative and convenient service is yet another step of the financial institution in the development of modern and innovative financial solutions that meet the individual needs of its customers.

Postbank introduced another new service which again provides a modern way to use banking services. Mobile Bankers are bank experts who provide free consultations in Sofia to existing and future customers of the financial institution. The mobile bankers answer all questions concerning consumer and mortgage loans, overdrafts and credit cards in a time and place of the customer's choice specified in advance.

To meet the consumer demand for more profitable investment opportunities, Postbank, in partnership with Bulstrad Life Vienna Insurance Group, offered a new product. Everest Investment Insurance Product is based on a specially developed insurance programme for deposit and investment in a structured product based on EURO STOXX 50, which allowed for the achievement of attractive profitability over time.

## SUSTAINABLE DEVELOPMENT

In addition to its main activities, Postbank also focused on the needs of the local community, by supporting programmes and initiatives together with established institutions and organizations. In 2016, the Bank implemented a number of socially significant projects in the field of education, early child development, environmental protection, sports and corporate donations.

Young people and children are in the focus of Postbank's corporate social responsibility programmes. The Bank continued to provide support to UNICEF's project for developing a network of Maternal and Child Healthcare Centres to help families care for their children. Since the launch of the three-year project, Best Start for Every Child, in 2013 the financial institution has raised over BGN 800,000.

Support for education has always been part of the corporate social responsibility projects developed and supported by Postbank. In 2016, the financial institution supported the National Trade and Banking High School, and committed to becoming a mentor of one of the school banks. Postbank's Next student team deservedly won the first place in the school competition.

This year, the Bank also supported the conferences of Capital Weekly – *Innovations for Better Education*, and Bulgaria on Air's Education and Business. The events were aimed at promoting the successful practices of the school innovative through the use of modern education methods and new technologies.

The Bank's team enthusiastically joined also a project of the American College in Sofia - *School Meets Business*. Four 12th-graders from the college purposefully and determinedly chose to meet Postbank's team because they identified it as a leader in the banking services and innovative products, and as a company awarded for its responsible and sustainable business in Bulgaria.

In June, for yet another year, Postbank was the main partner of the charity relay race Postbank Business Run, annually organized by Begach Runner Club. A record number of participants signed up – 259 teams of 109 companies from various sectors competed again in support of the cause of For Our Children Foundation – more children to stay live with their families. The initiative raised nearly twice as much money as the previous year – BGN 14,730. The financial institution also received a special recognition from Begach for participating in Postbank Business Run 2016 with the highest number of teams in the Company with 500+ Employees category.



Postbank invested also in supporting sports teams – the Bank has been supporting Dobrich's volleyball team Dobrudzha '07 since 2015. In 2016, the team became the volleyball champion of Bulgaria.

In September, Postbank joined for the fourth consecutive year the global initiative PARK(ing) Day, organized by Credo Bonum Foundation. Within the campaign, the financial institution surprised Sofia residents with the dedicated green corner in front of its office on Tsar Ivan Shishman Str. Within the event, called *Charger with a Heart*, all who wished could ride a bicycle and take care of their own health and the environment by generating green energy to charge their mobile device with a special charger which converts mechanical energy into electricity.

Smile Art Fest – the travelling caricature exhibition was implemented with Postbank's support and toured five of the largest cities in the country. The exposition included interpretations of popular caricature masters on the theme Destination Balkans – Destination Bulgaria. As the main sponsor of the festival, Postbank added another competition category – Destination: Future – the future in the life of the Bulgarian people and the Balkan nations close to them in spirit and soul, as seen from the point of view of modern technologies. The festival



was organized by Imeon-Balkans Foundation in partnership with the Union of Bulgarian Artists, the Federation of Cartoonist Organizations (FECO), the Union of Bulgarian Philatelists and the Bulgarian Diplomatic Society.

Postbank is the only bank in Bulgaria with its own Green Board and an Environmental Office unit in its organizational structure, focused on protecting the environment both in terms of limiting the resources consumed by the bank and of its financing activities.

Throughout the year, the Bank continued to provide its long-standing support for and work with socially disadvantaged groups, and to encourage their active role in the society. Throughout the year, support was provided to disadvantaged children in Kazanlak, to elderly people in Russe, to the only School for Guide Dogs in Bulgaria, the national campaign Easter for Everyone – Give a Feast to Grandparents, and many other smaller initiatives.

## AWARDS

- *Innovations in Banking Products and Services* – an award from the fifth anniversary edition of Forbes Business Awards;
- Special award for supporting the financing of small and medium enterprises by Business Club Magazine for the disbursement of low-rate working capital and investment loans to small and medium enterprises under the Forward Programme;
- *Sustainable Development Campaign* – an award from the prestigious PR and communications competition, BAPRA Bright Awards, for the project *Best Start for Every Child*;
- *Innovative Campaign of the Year* – an award from the prestigious PR and communications competition, BAPRA Bright Awards, for the project *Best Start for Every Child*;
- *Campaign Implemented by Internal PR Department* – an award from the prestigious PR and Communications competition, BAPRA Bright Awards, for the campaign *On the Wings of Success*;
- *PR Project for Internal Communication* – an award from PR Prize 2016 for the *On the Wings of Success* campaign, third place;
- *Green Communications and Urban Environment* – an award from PR Prize 2016 for the *Flying City Dwellers* campaign, third place;
- *Online Company or Project* – an award from PR Prize 2016 for the *Finances by the Note* campaign, third place;
- *Special award of Manager Magazine* for the *Flying City Dwellers* project by PR Prize 2016;
- *Special recognition by Begach Sports Club* for participating with the highest number of teams in the *Company with 500+ Employees* category at *Postbank Business Run 2016*;
- *Bronze statuette from EFFIE Bulgaria 2016* in the *Corporate Communications* category for the campaign launched for the Bank's 25<sup>th</sup> anniversary;
- *First place in the Product Re-launch category* – *Best Marketing Team* award for the product *Student Loan* by the *Bulgarian Association of Advertisers (BAR)*;
- Two prestigious *STP Excellence Awards* for high-quality currency transactions in EUR and USA in 2015 by



Deutsche Bank, the bank's long-standing partner in correspondent banking;

- *National Champion of Bulgaria* in the European Business Awards' Innovations category for the innovative Different Consumer Loan;
- *The special Bank Deal of the Year award* for the acquisition of Alpha Bank Bulgaria at the traditional competition – Annual Bank Awards of the Bank of the Year Association;
- *The Golden Heart award* in the Green Planet category for the *Charger with a Heart* project from the annual charity and corporate social responsibility awards Golden Heart of *Business Lady Magazine*.

## SHARE CAPITAL STRUCTURE

As at 31 December 2016, 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 47.12%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V., 9.02% by CEH Balkan Holdings Limited and 0.01% by minority shareholders.

## MANAGEMENT BOARD

As at 31 of December 2016, the Management Board consisted of the following members:

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

### 1. Total annual remuneration of the members of the Management Board

In 2016, 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 owned or transferred shares or bonds of the Bank.

### 3. 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. Management Board members' ownership in other commercial enterprises, as:

#### 4.1. Partners with unlimited liability

No member of the Management Board was a partner with unlimited liability in other commercial enterprises.

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

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

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

- **Petia Dimitrova**

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

Confederation of Employers and Industrialists in Bulgaria, Bulgaria – member of the Management Board;

American University in Bulgaria, Bulgaria – member of the Board of Trustees;

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

Borica-Bankservice AD – member of the Board of Directors;

Foundation Atanas Burov – member of the Management Board.

- **Dimitar Shoumarov**

IMO Rila EAD, Bulgaria – member of the Board of Directors (until 28 September 2016);

IMO 03 EAD, Bulgaria – Executive Director and member of the Board of Directors (until 9 September 2016);

ERB Leasing EAD, Bulgaria – Chairman of the Board of Directors (until 2 September 2016);

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

- **Asen Yagodin**

Sports Club DFS-Lokomotiv Sofia, Bulgaria – member of the Board of Directors;

Bulstrad Life Vienna Insurance Group JSC, Bulgaria – independent member of the Supervisory Board;

Bulgarian Stock Exchange – Sofia AD, Bulgaria – Chairman of the Board of Directors.

- **Iordan Souvandjiev**

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

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

IMO Rila EAD, Bulgaria – Deputy Chairman of the Board of Directors and Executive Director (until 28 September 2016);

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

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

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

**The Bank did not enter into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2016.**

## SUPERVISORY BOARD

As at 31 December 2016 the Supervisory Board consisted of the following members:

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

Mr. Georgios Provopoulos was officially appointed as member of the Supervisory Board on 29th of January 2016.

### 1. Total annual remuneration of the members of the Supervisory Board

In 2016, 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 2016

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

### 3. Supervisory Board members' 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. Supervisory Board members' ownership in other commercial enterprises, as:

#### 4.1. Partners with unlimited liability

No member of the Supervisory Board was a partner with unlimited liability in other commercial enterprises.

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

None of the present members of the Supervisory Board were a partner or shareholder holding more than 25% of the capital of another company.

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

- **Georgios Provopoulos**

Eurobank Private Bank Luxembourg S.A. – Vice Chairman of the Board of Directors (effective as of 11th of February 2016).

- **Theodoros Karakasis**

Bancpost S.A., Romania – Deputy Chairman 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 of the Board of Directors;  
ERB Property Services d.o.o. Beograd, Serbia – Chairman of the Supervisory Board;  
Eurobank A.D. Beograd, Serbia – member of the Management Board;  
ERB Property Services Sofia A.D., Bulgaria – Chairman of the Board of Directors;  
Bulgarian Retail Services A.D., Bulgaria – Chairman of the Board of Directors;  
CEH Balkan Holdings Limited, Cyprus – member of the Board of Directors;  
Greek-Serbian Chamber of Commerce – Deputy Chairman of the Board of Directors.

- **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 of the Board of Directors;  
Eurolife ERB General Insurance S.A., Greece – member of the Board of Directors (until 4th of August 2016).  
Eurolife ERB Life Insurance S.A., Greece – member of the Board of Directors (until 4th of August 2016);  
Be – Business Exchanges S.A., Greece – Chairman of the Board of Directors;  
Eurobank Property Services S.A., Greece – member of the Board of Directors;  
Eurolife ERB Insurance Group Holdings S.A., Greece – member of the Board of Directors (until 4th of August 2016);  
Eurobank A.D. Beograd, Serbia – member of the Management Board;  
Eurobank Cyprus Ltd, Cyprus – member of the Board of Directors

- **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 of the Management Board;

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

Eurobank Cyprus Ltd, Cyprus – Chief Executive Officer

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 of the Board of Directors;

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

ERB New Europe Funding III Limited, Cyprus – Chairman of the Board of Directors;

Public Joint Stock Company Universal Bank, Ukraine – member of the Supervisory Board (until 23rd December 2016).

- **Anastasios Nikolaou**

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

PJSC “Universal Bank”, Ukraine – Member of the Supervisory Board (until 23rd December 2016).

- **Christina Theofilidi**

Eurobank Ergasias S.A., Greece – General Manager Individual Banking (effective as of 2nd of September 2016), Member of the Executive Board

Eurobank Financial Planning Services Societe Anonyme, Greece – Deputy Chairman of the Board of Directors; (until 27th of October 2016);

Eurobank Remedial Services Societe Anonyme, Greece – member of the Board of Directors (until 27th of October 2016);

Eurobank Household Lending S.A., Greece – Vice Chairman of the Board of Directors (effective as of 4th of November 2016);

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

Tiresias Bank Information Systems S.A., Greece – Non-Executive Director.

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

The Bank did not enter into contracts specified in Article 240b, paragraph 1 of the Commercial Act during 2016.

## **BANK STRUCTURE**

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2016 and therefore no consolidated financial statements are prepared at this entity level.

## **OBJECTIVES FOR 2017**

The Bank's 2017 main objectives will be to build upon its achievements in 2016 and continue delivering double-digit return on equity to its shareholders. The Bank will maintain its leading position on the market and strengthen the long-term relationship with its clients.

The solid capital adequacy and liquidity buffers will be maintained, ensuring that Eurobank Bulgaria has enough resources to grow organically and expand its lending activities without compromising the prudent risk appetite. The positive economic outlook will increase the demand for loans in all client segments and will help utilize some of the excess liquidity. Cost of funds will be further optimized to the extent possible in order to sustain interest margins in the increasingly competitive environment.

Further enhancing the transactional business is a must in an environment of low interest rates in order to compensate the market pressure on interest income. With the acquisition of Alpha Bank - Branch Bulgaria finalized, costs will return to their normal level in order to bring the cost-to-income ratio firmly below 40%. However, investments in innovative solutions and alternative distribution channels will be expanded in order to improve the speed of service and customer experience.

The activities, related to improvement of the quality of the portfolio and reduction of the share of non-performing loans, will be strengthened. In the meantime, the preparations for the introduction of IFRS 9 are ongoing and the Bank will be completely ready to apply it as of 1 January 2018.

The long-term strategy of the Bank remains unchanged – to be the bank of first choice for its customers. Gaining clients' trust requires a flawless customer service through multiple channels and a genuine care in listening to their opinion. The Bank will continue to provide the most innovative and suitable products and quality services while meeting the constantly evolving customers' expectations, thus creating added value for them and its shareholders.

## MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year to give a true and fair overview 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 to 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.



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

29 March 2017  
Sofia, Bulgaria



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

## SELECTED REPORTING DATA

## INCOME STATEMENT

	Notes	Year ended 31 December	
		2016	2015
Interest and similar income	1	305,241	303,716
Interest and similar charges	1	(31,726)	(67,357)
<b>Net interest income</b>		<b>273,515</b>	<b>236,359</b>
Fee and commission income	2	84,244	72,788
Fee and commission expense	2	(14,149)	(12,648)
<b>Net fee and commission income</b>		<b>70,095</b>	<b>60,140</b>
Dividend income		663	407
Other operating income	3	11,486	445
Net trading (expense)/income	4	(127)	31
Gains less losses from trading securities	12	863	(112)
Gains less losses and impairment of securities available for sale	14	10,942	647
Repossessed collateral impairment	W.1.6.	(754)	(334)
Other operating expenses	5	(147,327)	(112,384)
Deposit Insurance Fund expense		(15,572)	(25,063)
Impairment charge for credit losses	7	(69,755)	(66,601)
<b>Profit before income tax</b>		<b>134,029</b>	<b>93,535</b>
Income tax expense	8	(14,459)	(9,435)
<b>Profit for the year</b>		<b>119,570</b>	<b>84,100</b>

The financial statements were authorized by the management on 29 March 2017.



**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.



**Milka Damianova**

Registered Auditor

30 March 2017



**Stefan Weiblen**

PricewaterhouseCoopers Audit OOD



## STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December		
	Notes	2016	2015
<b>Profit for the year</b>		119,570	84,100
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		<b>6,158</b>	<b>13,093</b>
Available for sale securities			
-net changes in fair value, net of tax	9	9,939	13,317
-transfer of (profit) to net profit on sale upon disposal or impairment	9	(3,781)	(224)
<b>Items that will not be reclassified to profit or loss:</b>		<b>503</b>	<b>(507)</b>
Revaluation of property, plant and equipment, net of tax		(78)	(426)
Re-measurements of post-employment benefit obligations, net of tax		581	(81)
<b>Other comprehensive income for the year</b>	<b>9</b>	<b>6,661</b>	<b>12,586</b>
<b>Total comprehensive income for the year</b>		<b>126,231</b>	<b>96,686</b>

The financial statements were authorized by the management on 29 March 2017.



**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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**Milka Damianova**

Registered Auditor

30 March 2017



**Stefan Weiblen**

PricewaterhouseCoopers Audit OOD

## BALANCE SHEET

As at 31 December

	Notes	2016	2015
<b>Assets</b>			
Cash and balances with the central bank	10	720,423	1,087,898
Loans and advances to banks	11	1,166,309	109,616
Financial assets held for trading	12	2,438	11,376
Loans and advances to customers	13	4,214,400	3,895,818
Investment securities	14	608,051	550,440
Derivative financial instruments	20	586	2,444
Investment property	15	678	843
Property, plant and equipment	16	41,000	40,104
Intangible assets	17	39,542	34,548
Other assets	18	24,835	19,575
<b>Total assets</b>		<b>6,818,262</b>	<b>5,752,662</b>
<b>Liabilities</b>			
Deposits from banks	19	21,171	19,854
Derivative financial instruments	20	6,693	3,289
Due to customers	21	5,524,333	4,604,805
Debt issued and other borrowed funds	22	78,959	160,944
Deferred income tax liabilities	23	2,243	2,710
Current income tax payable		2,172	1,081
Provisions for other liabilities and charges	24	10,483	5,220
Retirement benefit and other obligations	25	3,886	4,064
Other liabilities	26	20,337	36,511
<b>Total liabilities</b>		<b>5,670,277</b>	<b>4,838,478</b>
<b>Shareholders' equity</b>			
Share capital	27	560,323	452,753
Statutory reserves		282,521	282,521
Retained earnings and other reserves, net		305,141	178,910
<b>Total shareholders' equity</b>		<b>1,147,985</b>	<b>914,184</b>
<b>Total shareholders' equity and liabilities</b>		<b>6,818,262</b>	<b>5,752,662</b>

The financial statements were authorized by the management on 29 March 2017.



**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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**Milka Damianova**  
Registered Auditor  
30 March 2017



**Stefan Weiblen**  
PricewaterhouseCoopers Audit OOD

## 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 2015</b>	452,753	2,231	33	282,521	79,960	817,498
Net gain recognised directly in OCI	-	-	13,093	-	-	13,093
Revaluation of property, plant and equipment	-	(426)	-	-	-	(426)
Re-measurement on post-employment benefit obligations	-	-	-	-	(81)	(81)
<b>Other comprehensive income for the year</b>	-	(426)	13,093	-	(81)	12,586
Profit for the year	-	-	-	-	84,100	84,100
<b>Total comprehensive income for 2015</b>	-	(426)	13,093	-	84,019	96,686
Transfer to retained earnings	-	(7)	-	-	7	-
<b>Balance at 31 December 2015</b>	452,753	1,798	13,126	282,521	163,986	914,184

	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>	452,753	1,798	13,126	282,521	163,986	914,184
Net gain recognised directly in OCI	-	-	6,158	-	-	6,158
Revaluation of property, plant and equipment	-	(78)	-	-	-	(78)
Re-measurement on post-employment benefit obligations	-	-	-	-	581	581
<b>Other comprehensive income for the year</b>	-	(78)	6,158	-	581	6,661
Profit for the year	-	-	-	-	119,570	119,570
<b>Total comprehensive income for 2016</b>	-	(78)	6,158	-	120,151	126,231
Issue of share capital (Note 27)	107,570	-	-	-	-	107,570
Transfer to retained earnings	-	(8)	-	-	8	-
<b>Balance at 31 December 2016</b>	560,323	1,712	19,284	282,521	284,145	1,147,985

The financial statements were authorized by the management on 29 March 2017.



**Petia Dimitrova**  
Chairperson of the Management Board and  
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**Dimitar Shoumarov**  
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**Milka Damianova**  
Registered Auditor  
30 March 2017



**Stefan Weiblen**  
PricewaterhouseCoopers Audit OOD

## STATEMENT OF CASH FLOWS

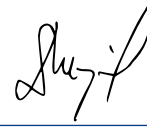
	Year ended 31 December	
	2016	2015
<b>Cash flow from operating activities</b>		
Interest received	303,842	312,424
Interest paid	(34,984)	(88,774)
Dividends received	663	407
Fees and commission received	84,582	72,402
Fees and commission paid	(13,255)	(11,725)
Amounts paid to and on behalf of employees	(65,842)	(53,668)
Net trading and other income received	19,815	2,910
Other operating expenses paid	(82,005)	(76,047)
Tax paid	(13,495)	(9,388)
<b>Cash from operating activities before changes in operating assets and liabilities</b>	<b>199,321</b>	<b>148,541</b>
<b>Changes in operating assets and liabilities</b>		
Net (increase)/decrease in reserve with the central bank	(46,054)	15,787
Net decrease in trading securities	8,858	47,247
Net decrease/(increase) in loans and advances to customers	125,776	(136,721)
Net (increase) in other assets	(1,674)	(907)
Net decrease/(increase) in derivatives instruments	1,269	(389)
Net increase in due to other banks	1,316	1,026
Net increase/(decrease) in amounts due to customers	370,184	(448,890)
Net (decrease)/increase in other liabilities	(23,855)	12,754
<b>Net cash flow from/(used in) operating activities</b>	<b>635,141</b>	<b>(361,552)</b>
<b>Cash flow from investing activities</b>		
Proceeds from acquisition of subsidiary, net of cash acquired (Note 32)	136,657	-
Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(16,983)	(8,824)
Purchase of investment securities (Note 14)	(67,394)	(663,639)
Proceeds from disposal of property and equipment	393	41
Proceeds from disposal of investment securities (Note 14)	36,841	252,656
<b>Net cash flow from/(used in) investing activities</b>	<b>89,514</b>	<b>(419,766)</b>
<b>Cash flow from financing activities</b>		
Long-term financing received	32,271	20,000
Long-term debt repaid	(113,934)	(39,327)
<b>Net cash used in financing activities</b>	<b>(81,663)</b>	<b>(19,327)</b>
Effect of exchange rate changes on cash and cash equivalents	173	8
<b>Net change in cash and cash equivalents</b>	<b>643,165</b>	<b>(800,637)</b>
Cash and cash equivalents at beginning of year	994,604	1,795,241
<b>Cash and cash equivalents at end of year (Note 28)</b>	<b>1,637,769</b>	<b>994,604</b>

The financial statements were authorized by the management on 29 March 2017.



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



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

Initialed for identification purposes in reference to the auditor's report.



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**Milka Damianova**  
Registered Auditor  
30 March 2017



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**Stefan Weiblen**  
PricewaterhouseCoopers Audit OOD



## ***IMAGINING***

*a better future is only the first step. Every day work will get you to the end of the road.*



***CONTRIBUTION TO  
SUSTAINABILITY***

## LETTER TO STAKEHOLDERS



**Dear readers,**

First, we would like to thank everyone who is helping us to create and develop Postbank's innovative products and to achieve sustainable growth – clients, employees and business partners. With this letter, part of Postbank Annual Report 2016, we would like to present to you the assessment of our team's achievements during the year in broader economic, environmental and social terms.

On the next pages, you will have the opportunity to learn more about the main objectives our efforts are focused at in order to achieve long-term sustainable development through efficient corporate management, adherence to all regulations and taking full responsibility for the quality of our products and services. This report is a confirmation of our understanding that the ethical and responsible approach to business is a key component of our long-term success. For us this means putting our clients first, creating a stimulating working environment, protecting the environment and, at the same time, guaranteeing that our work is contributing to boosting the economic and financial stability of the company and the community.

2016 was not only a special, dynamic and full of challenges year, but also one of Postbank's most successful years. The confidence in the banking system generally remained high, which was indicated by the constant growth in households' and companies' savings. Almost all system indicators were positive – assets and deposits increased, as well as loans and the total revenues of the banks.

In 2016, Postbank posted BGN 119.6 million net profit – not only 40% up from the previous year, but also the highest net profit in the Bank's history. Postbank's assets stood at BGN 6.8 billion as of 31 December 2016. Our good financial results had a positive effect on our contribution to the economy and the community as a whole.

2016 was also the year when Postbank celebrated the 25th anniversary from its establishment. We achieved and maintained our leadership position in all banking segments - we are a long-established brand in household lending and we can boldly say – an established partner to Bulgaria's business sector. Another significant fact for Postbank and all of our clients and partners in 2016 was the successful completion of BNB's stress test and asset quality review. Last year was marked by another important achievement – the successful finalization of the acquisition of the operations of Alpha Bank - Branch Bulgaria, which facilitated us to now offer high-quality service in a larger network of branches and business centres.



## Sustainable benefits for our clients and partners

Postbank continues to be a preferred financial partner of citizens and companies in every aspect of banking, as we are constantly striving to offer them modern products and comprehensive solutions. Focusing in this goal, in the last several years we have developed unique for the Bulgarian market bank products. We successfully develop new trends, we are not following the steps of our competition and we are introducing novelties not just because they are something new, but because we see they are beneficial for our clients. Our clients' trust is the best evaluation of our work and a proof we are developing in the right direction.

## Employee development

The real engine of the Postbank's good results and our most valued resource has always been and will be our team – the employees who every day turn their ideas into real products and services, providing added value to clients. The Bank prioritizes investing in professionally qualified employees who can meet the challenges in their work with competence, assist and advise clients. We encourage our employees' proactivity, creativity and their desire to be part of the Bank's positive change and development. We strive for a constant two-way communication with them, which would build mutual trust and help set up a corporate culture distinguishing personal contribution, efforts and knowledge. Once again this year we showed that we are a strong and united team.

## Care for environment and community

Beside its main business activity, in 2016 the Bank focused on the needs of the local community. We implemented lots of initiatives we had developed and supported programmes of established institutions and organizations as their long-standing partner. We continue to be very active in the sphere of corporate social responsibility, realizing a series of socially important projects in the fields of education, environment protection, sports and corporate donation. Some of them include the joint project with UNICEF Bulgaria, *Best Start for Every Child*, the charity relay race, Postbank Business Run, our internal programme, Green Together with Postbank, the participation in the international initiative, PARKing Day, the partnership with the American University in Bulgaria and the National Trade and Banking High School. Our corporate social responsibility projects brought us awards from the most prestigious contest in Bulgaria for yet another year.

On the next pages of the report, you will be introduced in detail to all components of our contribution to creating sustainable benefits for our clients, partners and community. In 2017, we will follow the strategy of being a preferred bank by offering the most innovative and highest-quality products and services, and, at the same time, meeting the constantly increasing expectations of our clients, partners and employees.

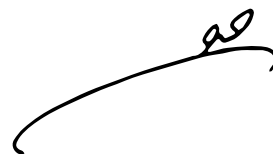
*Sincerely,*



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**Dimitar Shoumarov**

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



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**Asen Yagodin**

Executive Director,  
Wholesale Banking Executive and  
Member of the Management Board

## GUIDING PRINCIPLES AND BELIEFS

The constant efforts to improve the economic environment by holding an open dialogue with stakeholders and the Bank's active contribution to society are the essence of Postbank's Corporate Responsibility. The Bank's Corporate Responsibility is implemented through four pillars of action:

- Dialogue with stakeholders, through actions and initiatives that identify issues and promote appropriate solutions;
- Improving corporate governance to ensure the organization's transparency;
- Social contribution in key activities of the local community;
- Care for the environment to cope with Climate Change 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



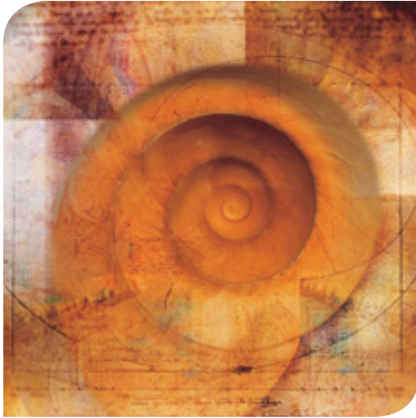
#### **MERITOCRACY**

Equal opportunities for distinction.



#### **RESPECT**

... to the colleague, to the client,  
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**

Success comes easier when we work as a team.



### **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

Postbank prioritizes continuing 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;
- Nine business centres servicing middle and big 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, \*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 Blvd, 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 department;
- 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 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, Ideyno (Good Ideas), aimed at encouraging employees' ideas and proposals for improving the work.

## Suppliers

- Contracts 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**

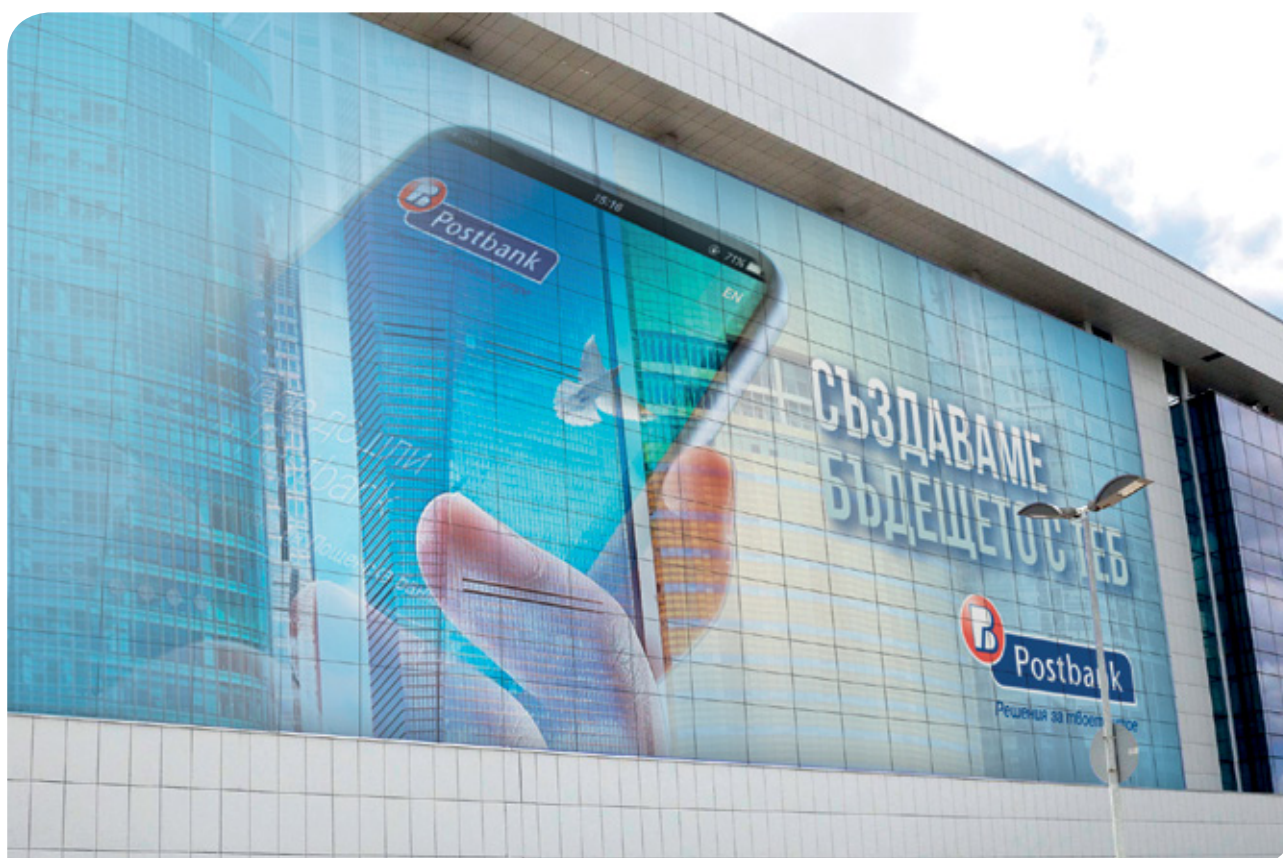
### **CONTRIBUTION TO GROWTH**

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 the centralized procedures for managing procurements, ensuring the top quality of supplies, containing costs and promoting best social practices.

Postbank aims at a uniform policy of selection of suppliers, based on strategic synergies and mutually beneficial relations. The procedures for the 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 its selection of suppliers, the Bank aims at ensuring complete respect of human rights in those companies, as well as consistent application of environment-friendly practices aimed at constant reduction of energy effect. Recognizing the need for support to local economies, in 2016, Postbank preferred to work with local suppliers in selected categories of goods and services. The Bank works with a large network of local partners, representing around 90% of all its suppliers.



## CREATED DIRECT ECONOMIC VALUE

SOCIAL PRODUCT	PUBLISHED RESULTS 2016		PUBLISHED RESULTS 2015	
	BGN	EUR	BGN	EUR
<b>THE CONTRIBUTION OF THE BANK TO THE SOCIAL PRODUCT</b>				
Turnover	401,616,000	205,343,000	376,941,355	192,727,055
Interest expense and fees & commissions expense	- 45,875,000	- 23,455,515	- 80,005,405	- 40,906,114
VAT on added value of the Bank	- 4,768,729	- 2,438,213	- 2,814,405	- 1,438,982
Impairment losses	- 69,755,000	- 35,665,165	- 66,600,715	- 34,052,405
<b>Social Product</b>	<b>281,217,271</b>	<b>143,784,107</b>	<b>227,520,830</b>	<b>116,329,553</b>

### SOCIAL PRODUCT AND ITS DISTRIBUTION

<b>I. Personnel</b>	<b>40,524,713</b>	<b>20,719,957</b>	<b>32,304,185</b>	<b>16,516,867</b>
Gross pay	54,636,380	27,935,138	44,209,500	22,603,959
Employer contribution to social security institutions	2,883,103	1,474,107	2,434,185	1,244,579
Medical, retirement and other benefits	1,069,619	546,888	1,071,997	548,103
Contribution to social security institutions (employer and employees)	- 13,386,844	- 6,844,585	- 11,586,884	- 5,924,280
Employees tax	- 4,677,545	- 2,391,591	- 3,824,614	- 1,955,494
<b>II. Suppliers of foods and services</b>	<b>68,130,188</b>	<b>34,834,412</b>	<b>58,337,657</b>	<b>29,827,570</b>
<b>III. Donations and sponsorships</b>	<b>128,252</b>	<b>65,574</b>	<b>54,732</b>	<b>27,984</b>
<b>IV. State</b>	<b>52,864,118</b>	<b>27,028,995</b>	<b>52,724,270</b>	<b>26,957,491</b>
Income tax and various taxes	14,459,000	7,392,769	9,434,883	4,823,979
Value added taxes	4,768,729	2,438,213	2,814,405	1,438,982
Deposit guarantee and investors compensation schemes	15,572,000	7,961,837	25,063,484	12,814,756
Contribution to social security Institutions (employer and employees)	13,386,844	6,844,585	11,586,884	5,924,280
Employees tax	4,677,545	2,391,591	3,824,614	1,955,494
<b>V. Company</b>	<b>119,570,000</b>	<b>61,135,170</b>	<b>84,099,987</b>	<b>42,999,640</b>
Retained earnings/reserve	119,570,000	61,135,170	84,099,987	42,999,640
<b>Social product</b>	<b>281,217,271</b>	<b>143,784,107</b>	<b>227,520,830</b>	<b>116,329,553</b>

## IMPROVING PRODUCT AND SERVICE QUALITY

The investments made by Postbank are not an end in itself. The 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 for the Bank among the most technologically advanced institutions in the financial sector and a preferred and well recognizable brand on the market.

The strategy that the management accepted to follow is based on two key factors – the expectations of the potential customers and the satisfaction of the existing ones. Postbank has 24/7 connection with the customers and continues to invest in a modern own 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 customers.

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

A team of the Client Relations department is working within the Bank's structure to improve the customer signal management process. The team monitors and responds to signals received, and replies to more than 85% of them within seven days.

Postbank is constantly investing in the Mystery Shopper surveys, and achieved the goal in the last years of reaching even better results. The results by that and other surveys and projects are a valuable instrument in the improving customer service management.

Besides the regular Mystery Shopper survey, which compares Postbank to the other commercial banks on the market, the Bank carries out its own survey throughout the year, which is specifically aimed at examining the customers' satisfaction with the services provided in the branches.

These regular surveys are a proof that Postbank applies high customer service standards and further help to outline the strategy how to make the Bank the first choice of the customer.

The bank's team reports 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;
- Issuing a manual for the front office staff titled 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 in the social networks Facebook, LinkedIn, Google+, YouTube

A few years back, the Bank's team stated its strong desire to link the organization's main mission – that of customers' trusted and preferred financial partner throughout their lives – with a new vision that would express the confidence that Postbank is an institution with responsibility for 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 Client's Charter – a system of ten moral principles that all employees should follow and apply in their everyday communication with the customers. The document expressed 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 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.

## COMPLIANCE

### Prevention of Money Laundering and Terrorism Financing

To avoid the involvement in any money laundering or terrorism financing activities and operations, the team aims at ensuring that every bank operation observes a 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 a requirement to identify and monitor the accounts of what are known as „politically exposed“ customers or individuals related to them. Unfortunately, in 2016, new terrorist attacks occurred in different locations worldwide, emphasizing heavily the importance of the measures applied by the Bank to prevent the use of the financial system for the purposes of terrorist financing. The decreasing, but at the same time continuing, Syrian crisis-related refugee movement and the illegal immigration to the EU pose a threat to the actions involving money laundering and terrorism financing.

### Sanctions

Sanctions are official restrictions on the activities of specific countries, individuals, organisations and industries, which are designed to prevent weapons proliferation and tackle organised crime and terrorism. The Bank maintains systems and controls to comply with all financial sanctions and export controls. In 2016, there were no major changes in the existing sanctions.

### Data Protection

The fair and lawful treatment of our customers' personal information is a key priority for Postbank, and a prerequisite for the achievement of its strategic goals.

Postbank data protection instructions set out general rules for processing customers' personal data. The rules and regulations related to data protection issues are freely accessible to all employees via the intranet.

### Fraud and Corruption Prevention

The 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 fraud prevention and early detection.

The Bank maintains high ethical and moral standards and takes measures for prevention of abuse, whether external or internal, and of any other violations of rules, standards or against authorities. The Bank's management bodies are committed to provide the relevant means for combating abuses. The Bank requires its staff to always work diligently and protect the assets and resources they are responsible for. The financial institution requires its employees to report each case of abuse or reasonable suspicion of abuse.

### Code of Conduct

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

Its purpose is to develop and establish standards of conduct and professional ethics. The document reflects the adopted principles of loyalty, integrity and diligence as leading ideas and basic concepts, as well as the highest requirements in relation to the staff's personal and professional ethics.

All employees at Postbank are trained in the anticorruption policies of the organization. Throughout the year all staff trainings included a presentation by the Compliance Division about the issues described above. The introductory programmes for new recruits include sessions making them familiar with the Code of Conduct and the Fraud Response Policy.

### Regulatory Audits

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

### Advertising and promotion

2016 was marked by two important events - the 25th anniversary celebration and the successful acquisition of the operations of Alpha Bank - Branch Bulgaria.

The Bank's 25<sup>th</sup> anniversary was popularized through a large-scale advertising campaign via all communication channels. It clearly stated that the experience and the past are important, but the future is the financial institution's main priority. The idea that nostalgia is useless and present moments and the future are lot more significant topics for discussion was first presented in a television video advert. The anniversary logo 25 Years Postbank reminded during the entire 2016 that this is an important year to the institution and it marked the start of a new brand positioning. The video, called 25 Years Postbank, won an EFFIE award in the Corporate Communications category and set the tone of the Bank's advertising messages during the entire 2016.

At the end of this festive year for the Bank, the largest digital puzzle has been created with messages from employees, clients and partners. Specially built website [www.25godiniPostbank.bg](http://www.25godiniPostbank.bg) collected thousands of positive messages related to the future. In three city malls - The Mall - Sofia, Sofia Ring Mall and Paradise Center - Sofia, people had the opportunity to try out new technologies and win prizes. Digital labels, huge LED screens, virtual reality glasses and innovative technology for painting in the air have brought the Bank's friends into the future.

One of the most successful products of the year – Different Consumer Loan – was again presented to clients in a television video advert which built on the message: "There is one place better than the past. It is today." With this message the Bank's team stated that clients have the right to require more every day.

The other significant event – the acquisition of the operations of Alpha Bank - Branch Bulgaria – positioned the Bank among the biggest in the country, having even broader branch network and client base. The event was announced in a campaign with the motto: "Stronger together, more



opportunities for you". The campaign was carried out in the first half of 2016, presenting the merging of the two banks as a prerequisite for security and a promise for better service to clients.

Aiming at keeping the promise, in 2016, Postbank offered its clients lots of innovative and competitive products – the deposits Active Currency and Deposit Combination, and the loan Express Consumer Loan, as well as new innovative service such as the Mobile Bankers service. They all were promoted through an easily recognizable and clear advertising communication. The start of the new Mobile Banking, a very important facilitation for the Bank's clients, as well as the Business Doesn't Wait campaign, designed for corporate clients, stood out with a strong presence on outdoor advertising channels. In 2016, the Bank opened its first specialized center for Private Banking, once again with attractive presence on communication channels.

As a member of the Bulgarian Association of Advertisers, Postbank ensures transparent behaviour, detailed and honest communication in all of its advertising campaigns and their compliance with the Consumer Protection Act, the Competition Protection Act, the Credit Institutions Act, the Banks Act and the Consumer Loans Act, which regulate the provision of information about bank products. Each advertising communication is coordinated with the Bank's Legal department.

*·Банкери·*  
**НАСРЕЩА**



## НАШИТЕ МОБИЛНИ БАНКЕРИ СА ВИНАГИ НАСРЕЩА

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## HUMAN CAPITAL DEVELOPMENT

### Human Resources

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

Dynamic environment and intense competition on the banking market impose ambitious and multidimensional requirements on the human resources function. They are related to the capability of human resources staff to identify and put appropriate people at relevant positions, to ensure effective training in order to quickly develop 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 financial institution's openings (70%) are taken by personnel coming from the so-called internal market, i.e. by promoted and reappointed employees.

Proof for that is the increase of the criteria by almost 20%, compared to 2015. 30% of 2016 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. This was proven by the fact that in 2016, 90% of the newly-appointed employees in the Bank had a master's degree, and this is 10% more compared to the same period in 2015. High recruitment criteria are illustrated also by the fact that in 2016, 64% of the newly-appointed employees had more than five years of professional experience.

### Professional Training

The financial institution lays emphasis on providing additional training to its employees, as well as opportunities for skills improvement as one of the most powerful tools for the achievement of its strategic goals. High expectations of the Management and employees in this relation were met, by organizing different training initiatives in many directions. The Bank pays special attention to developing the skills of its employees working at the Customer Service Department and to increasing their awareness of its significance. Trainings on consultative selling and initiatives for the improvement of leadership skills of current and future management members remain traditional for Postbank.

In 2016, like in the years before that, a special focus was put on applying theory to real practice. This emphasis found a noticeable expression in on-the-job trainings which proved as a working and effective scheme.

Regarding the acquisition of the operations of Alpha Bank - Branch Bulgaria and the practical two-week on-the-job

trainings (with an approved program), the total training man-hours in 2016 increased more than 20 times to 640,900 and the total number of participants in the training sessions – to 9,090. The number of the training programmes increased three times to 616, compared to 2015. The constant effort to improve their content and design was continued.

In 2016, more areas for the application of new training technologies were developed such as online and distance training.

### **Induction Programmes**

Induction programs continued being in the focus of the Training and Development Department as an essential tool which ensures continuity and high quality of business processes. In 2016, 91% of the newly-recruited personnel passed through induction training. This way, they became acquainted with the Bank's systems, procedures and products, as well as its high customer service standards.

The Training and Development Department strived to meet also the training needs of the employees who had been internally reappointed and/or promoted during the year. Such trainings were organized both in groups and individually.

All induction programmes were conducted by internal trainers who are proven specialists in their areas. Thus, the Bank's induction programmes provided the trainees with the opportunity to gain not only pure knowledge, but also to become acquainted with the Bank's best practices and successful experience, and distribute them onwards.

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

In 2016, as a result of the new innovative model of the branch network, the tendency of binding theory and practice together continued with the support of the created Mortgage Lending and the Small Business Banking Postbank specialized centers. These centers act not only as business centers, but also perform training programmes. The newly-recruited and the promoted employees can develop their practical knowledge and skills in the on-the-job programmes. In order to be well-prepared for their role, the mentors in these centers were trained by an external company on Effective On-the-job Training.

### **European Agricultural Funding Programmes**

In 2016, the Bank initiated a new training initiative focused on all employees working in the Large Corporate Clients, Medium Corporate Clients and Credit Risk units, aiming at improving their knowledge of European agricultural funding programmes. The training was focused on two important topics: the specifics of European programmes in this area and gaining concrete knowledge in agricultural business.

Acquiring a level of expertise in the area of agriculture is another step forward in turning the financial institution's employees into customer consultants of its clients.

### **Measuring Professional Preparation**

In 2016, the tendency for regular and standardized measurement of employees' professional preparation in terms of systems, products and actual campaigns continued. Almost all segments joined the initiative of the Individual Banking Department and in 2016, tests measuring employees' professional preparation were held every three months in almost the entire branch network. The tests were carried out online and the results are received immediately. They were used to identify the areas in need of knowledge improvement.

### **Long-term Qualifications**

In 2016, The Bank continued providing its high-flyers with opportunities to enrol in internationally recognized qualification and certification programmes, such as ACCA, CFA, CIA, CISA, CIMA, as well as to gain a degree in Bulgaria.

### **Harvard Business School**

In 2016, for the eighth year, Postbank provided its middle- and top-level management members with the opportunity

to enrol in the distance programme, Business Essentials, and be part of Harvard Business School training – the world's most prestigious business school.

A new 2-year Harvard Manage Mentor programme, divided into two levels, started in 2015. In 2016, 29 managers entered in the second year of the programme (HMM2) and three new junior managers started the first level of the programme (HMM1).

The main feature of the programme is its focus on practice, realized in case-based training.



### 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 by the annual performance appraisal process, which supports their further purposeful skill development. Performance management procedures guarantee transparency and equity. Every employee is assessed regardless of their position, having in mind employees' responsibilities and tasks. Moreover, the system assesses not only task performance, but also the way they have been fulfilled, which improves the communication between the evaluators and the evaluated, and encourages employees' personal and professional development.

An updated performance development system, implemented in 2011, guaranteed the 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 has 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 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 so wish. 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 character and out of the conviction of the Bank's Management that the establishment of healthy and safe environment leads to better motivation of the staff and better competitiveness. Postbank works in close cooperation with a labour medicine service to ensure the safety and health of its staff during work. A joint assessment is made of the risks for the staff's health and safety, including assessment upon changes of labour conditions at the workplace and upon introduction of new technologies. All Postbank's employees are represented on the Health and Safety Committee – a centralized committee covering all Bulgarian entities, part of the Bank. The Committee is based in Sofia and is responsible for the financial institution's Head Office and branches.

# 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 its duty to the shared natural environment is a crucial ingredient of its commitment to the well-being of its stakeholders and the community it operates in. Therefore, we strive to mitigate the adverse environmental impact of its activities and to make use of every opportunity to induce possible ecological changes.

As a major Bulgarian bank and a part of a powerful international financial group, we recognize the numerous opportunities to influence the public agenda. At the same time, we understand that the unique position we enjoy makes it more imperative 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 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 operations 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.

Environmental protection, as well as sparing use of natural resources, has always been one of the key core concerns of Postbank. That is why, the senior management has formed a special unit entrusted with the power to properly manage and control the implementation and execution of an environmental policy – the Environment Office, positioned as a direct reporting line to the COO, Head of the Central Operation Division.



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**Petia Dimitrova**

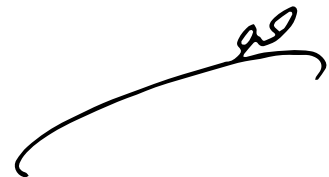
Chief Executive Officer  
and Chairperson of the  
Management Board



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**Dimitar Shoumarov**

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



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**Asen Yagodin**

Executive Director and  
Wholesale Banking Executive,  
Member of the Management  
Board

## ENVIRONMENT AND SUSTAINABILITY

In 2015, Postbank was distinguished as the greenest company in the financial services industry in Bulgaria in a prestigious competition, organized by b2b media, and in BG Green Awards contest, organized by Go Bio and b2b magazines. The Bank was recognized for its achievements in improving its internal processes, that lead to higher resource efficiency, and launching application of environmental risk management procedure in corporate lending.

At the beginning of 2017, Postbank won the first place in the Greenest Bank in Bulgaria category of b2b media's seventh national contest. Once again, the financial institution was awarded for its major investments in the development of sustainable practices both in terms of business processes leading to reduction of resource consumption and environmental risk management in corporate lending, and in terms of forming socially responsible attitude in its employees and the general public towards caring for nature.

In 2016, the Bank kept on following its strategy targeting both the direct and the indirect impacts on the environment of its activities. Efforts spread over the consolidated branch network and headquarters after the acquisition of the operations of Alpha Bank - Branch Bulgaria. Energy, water, paper consumption and waste disposal optimization initiatives continued in the already established tracks. The outcomes from these initiatives in 2012-2016 are evident in Table 1 presented below:

Table 1. Internal resource consumption at Postbank

INDICATOR	2012	2013	2014	2015	2016	△ 2016-2015	△ 2016-2012
CO <sub>2</sub> emissions from electricity consumption, tn	7 421	6 096	5 558	5 391	5 289	-2%	-29%
Water, m <sup>3</sup>	89 217	81 740	52 646	46 767	46 899	0%	-47%
Sheets of paper	37 610 615	34 315 000	32 325 000	30 073 000	31 122 005	3%	-17%

### *Shifting focus from direct to indirect environmental impacts management*

Having already implemented a wide variety of methods in the past years leading to lower overall consumption of resources, in 2016, the Bank entered a new period of its environment-directed efforts. While ensuring the relevant measures are in place to secure resource usage optimization, Postbank shifted its focus towards the management of the indirect environmental impacts of its activities. This reveals the high sense of responsibility the institution has towards the environment, as indirect impacts are, indeed, the ones that matter in the case of banks.

Thus, a lot of internal attention was focused on the efforts in the implementation of fully-fledged, detailed and embracing a large number of criteria procedure for managing environmental risks in core banking activities, the focal point being commercial lending. In this respect, Postbank has been following Eurobank Group policies and procedures, drawing on the international best practices applied across the Group.

A large project coordinated by the Environmental Office with the participation of Corporate Banking, SBB, Risk, HR, Legal, IT, Corporate Communications and Marketing Division and Organization Department was launched for the purpose. The outcome has been twofold. On the one hand, the update and enhancement of the existing Environmental and Social Risk Management Procedure of the Bank, on the other - the enrichment of the process of automation of environmental risk scoring and monitoring through the core banking system.



This project continues in 2017 and is expected to be completed by the end of the year. The aim is the management of the Bank to have both a high-level and a detailed view on the exposure of the corporate portfolio (including leasing operations) to environmental risks. This will facilitate credit approval decision-making and will enhance the understanding of the general risks the Bank is bearing, which will result in a better overall risk management.

For 2017 Postbank has come up with several targets in the area of environmental management:

1. Strict following of the implemented decisions and activities in the area of direct environmental impacts, namely resource management, so that the outcomes reached can be maintained and if possible, improved;
2. Roll out of the updated and enhanced Environmental Risk Management Procedure;
3. Upgrade of the risk management automation tool (IT project);
4. Training of all SBB and Corporate Banking staff in the application of the procedure and the use of the tool.

In 2016, Postbank had no fines related to environmental issues. In 2017, the Bank commits to continuing the efforts pursued until present in managing its direct and indirect environmental impacts.

## INVESTING IN SOCIETY

Investments in sustainable development were an essential part of the activities of Postbank in 2016 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, environmental protection and corporate philanthropy every year. This includes the joint project with UNICEF Bulgaria – *Best Start for Every Child*, the charity relay race Postbank Business Run, the internal programme *Green Together with Postbank*, the participation in the international PARKing Day initiative, the partnership 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.

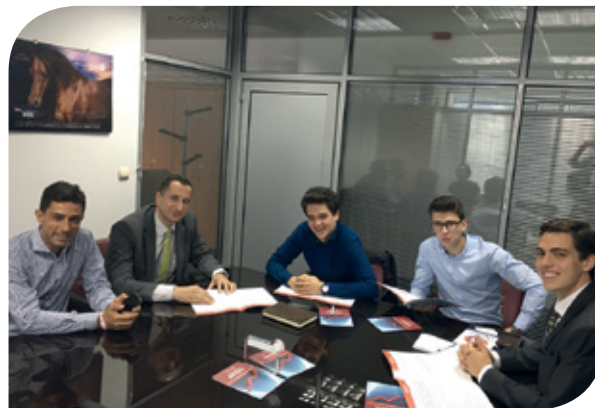
### INVESTMENTS IN EDUCATION

Promoting education and successful young people is an integral part of Postbank's corporate philosophy. The financial institution carried out a national representative survey on the level of financial literacy in the country back in November 2015, marking the launch of its campaign to raise the financial culture. The development of a comprehensive programme includes an online project in the social network Facebook, where an application for sharing tips from professionals and consumers was created. The campaign continued in 2017 with special interviews with experts of the bank, which were conducted in the Financial Tuesday rubric of Postbank and the Bulgarian National Darik Radio.

In 2016, the financial institution supported the National Trade and Banking High School for yet another year, and committed to becoming mentor of one of the training banks. Postbank Next training bank earned a well-deserved first place in the school competition.



This year, the Bank supported also the conferences Innovations for Better Education of Capital Weekly, and Education and Business: Future Leaders of Bulgaria on Air. The events objective was to promote the successful practices, which has made the school innovative through the use of modern pedagogical methods and new technologies. Postbank supported 24 Chasa newspaper's campaign – Study to Work, as part of its strategies to support good practices in education and raising the financial literacy. In 2016, Forbes Bulgaria presented its annual selection of talented young Bulgarians under 30 years of age – 30 under 30, at the Youth Pact forum, which also took place with Postbank's support.



The team of the financial institution enthusiastically joined the American College's project, named *School Meets the Business*, as well. 12th graders from the college chose to meet Postbank's team, defining it as a leader in banking services, innovative products, and a company awarded for responsible and sustainable business in Bulgaria.

In March 2017, experts from the Bank participated in the European Money Week. The joint initiative was developed by the European Banking Federation, the Association of Banks in Bulgaria and was aimed at improving the level of financial education of pupils in secondary and high schools in Europe. Postbank experts held open lessons raising the financial literacy among eighth-graders from the Vocational Trade School in Burgas and the English Language School Geo Milev in Russe. Tenth-graders from the American College in Sofia attended half-day training in the Corporate Banking and Corporate Communications and Marketing Divisions in the bank's head office. Representatives of the Bank also hosted third-graders from 23 Frederic Joliot-Curie High School in Sofia.

### INVESTMENTS IN CHILD CARE

The young people and children of Bulgaria have always been in the focus of Postbank's sustainable development programmes. The financial institution began its partnership with UNICEF Bulgaria with the project *Best Start for Every Child* at the end of 2013. This is one of the largest and most awarded corporate social responsibility project implemented so far by a financial institution. In 2016, the Bank continued its strategic cooperation with UNICEF to develop a network of Maternal and Childcare Centers in support of the families in the care for their infants. Two Maternal and Childcare Centers operate in the country (in Sliven and Shumen); 32 nurses and midwives have been trained; over 34,291 consultations have been given, of which 29,291 were home visits, thus helping over 7,196 families. The funds raised within the three-year project are over BGN 870,000.

### INVESTMENTS IN SOCIETY

Throughout the year, the bank continued its long-standing support for disadvantaged people, stimulating their active role in society. Traditionally, on the occasion of 1 March, Postbank gave away over 14,000 hand-made martenitsas as a special gift for customers, partners and employees. For seventh consecutive year, the initiative partners were Third Age Foundation in Russe and Future for Children with Disabilities Association in Kazanlak, which also make the Christmas cards for the Bank's customers and partners.

Every year, the financial institution invests in the installation of an exquisite arch in the centre of Sofia as





a festive gift for the residents and guests of the city. Thus, it contributes to the Christmas decoration in the capital every year.

In 2016, Postbank supported also the implementation of the Smile Art Fest – organization of exhibits of caricaturists in five Bulgarian cities – Burgas, Plovdiv, Stara Zagora, Russe and Sofia. The exposition included the interpretations of popular masters of the humorous illustrations, themed Destination Balkans – Destination Bulgaria, and Postbank added another competition category – Destination: Future – the future of the Bulgarian people’s life and the life of the Balkan nations – from the point of view of the contemporary technologies.

For a third consecutive year, Postbank also supported the Open Eyes for the Free Access of Guide Dogs initiative of Eyes on Four Paws Foundation. The Bank supported the participation of the only guide dog school in Bulgaria in the international conference Guide Dog 2016.

### INVESTMENTS IN SPORT

Postbank supports the participation of its employees in sport events. In June, the Bank was again the main partner of the charity relay race Postbank Business Run 2016, organized annually by Begach Running Club. A total of 259 teams from 109 companies from different business sectors competed in support of the cause of For Our Children Foundation – more children to remain with their families. Thanks to the initiative, the amount raised was nearly double than that of last year – BGN 14,730. For a second consecutive year, the runners were joined by 40 children aged 4 to 16, who competed in the Kids Run competition. The financial institution also received special recognition from Begach Running Club for its participation in the Postbank Business Run 2016 with the biggest number of teams in the category Company with 500+ Employees.



For yet another year, the bank’s football, basketball and table tennis teams joined the 13th edition of the International Workers’ Sports Festival. The teams demonstrated high spirit and will to win also on the sport field at the 13th Business Leaders Olympics, which was held in June 2016 in the Anglo-American School in Sofia.

Postbank also invest in the support of other sport teams – since 2015 the Bank has been supporting Dobrudzha 07 volleyball team from Dobrich, which became the new volleyball champion of Bulgaria for 2016.



## INVESTMENTS IN ECOLOGY



The financial institution set up its own Green Board and Environmental Office unit that work towards reducing its environmental impact in terms of limiting the resource consumption by the Bank, and in terms of its financing activities. The activities cover many areas – energy saving, optimizing the water consumption, reducing paper usage, recycling of paper and toners, recycling of IT equipment, etc. Moreover, the Green Board members organize various outdoor initiatives in which they engage their colleagues. The financial institution is investing in its own internal programme titled Green Together with Postbank, which is implemented entirely with its own funds and through the volunteer work of the employees.

The institution is still the only bank that has a working unit of volunteers who support the Bank's efforts to be more responsible in resource consumption.

In September 2016, Postbank joined the international initiative PARK(ing) Day, organized by Credo Bonum, for a fourth consecutive year. The financial institution surprised Sofia residents by transforming the usual parking spots on Shishman Street into improvised "green energy central" within the Charger with a Heart campaign. All who wished could ride a bicycle and take care of their own health and the nature by creating green energy to charge their mobile devices. With the campaign, the financial institution gave its contribution to promoting urban sports and reminded about the alternative ways for green energy production.



## OTHER DONOR INITIATIVES



In 2016, Postbank supported the children from the teams of Eighth High School in the Young Firefighter competition, and the teams of 191st Secondary School and 145th High School in the Young Rescuer competition.

Traditionally, the Bank supports also the national campaign Easter for Everyone – Give a Holiday to Grandma and Grandpa, which was held under the patronage of the Ombudsman of the Republic of Bulgaria in 2016.

The employees are regular donors to the National Hematology Centre and participate in blood donation actions, organized and held in the Head Office.







# *CHANGE*

*is the key to success. Our client's expectations are changing faster than ever.  
We strive for success by being the first to spot the changing times.*