

2015

# FINANCIAL AND SUSTAINABILITY REPORT



**Postbank**

*Solutions for your tomorrow*





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**Keywords:** *workplace spirituality, organizational culture, organizational commitment, organizational citizenship behavior, turnover intention*



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## LETTER TO THE SHAREHOLDERS



### Dear Shareholders,

I am honoured to present to you what was one of the best years in the recent history of the bank. A year ago we promised to you that we have put back the effects from the crisis and that from now on the bank will deliver outstanding results in the years to come. We have created a robust business model focused on profitability through preserving the sources of income and the quality of the assets, on control over the expenses, including interest expense, and on reducing the nonperforming portfolio. By 2015 our strategy was already paying off and we managed to increase the net profit markedly to 84.1 million leva and achieve a Return on Equity close to 10%.

On the face of it, the Bulgarian economy was also having a strong year. Real growth was 3%, well above the expectations, driven by exports and investments. The positive economic outlook did result in increased demand for loans, but it was not enough to compensate the struggle of the banks with their legacy - total loans decreased by 2.6%, although net of one off effects the market was probably flat. Growth of deposits on the other hand was close to a record – nominal delta was 5.1 billion leva suggesting companies and households are still inclined to save rather than spend and support the consumption, which grew by just 0.7% in 2015.

Despite the adverse market conditions, we managed to increase our total income by close to 10%, optimizing substantially the cost of funds in the process. Operating expenses were reduced by another 11% capitalizing on the restructuring plan completed in the beginning of 2015, while provisions for impairment shrank by 46%, bringing the cost of risk to 1.7% with a good potential for further reduction in the next years.

We proved ourselves as a secure and trusted partner of the business and households. In contrast to the market trend, we increased our lending portfolio by 2% throughout the year, capitalizing on our leading positions in all segments in which we operate. In 2015 alone, we granted new loans for more than 500 million leva to the small and medium sized companies, supporting this vital backbone of the economy, with more to come in 2016. Aiming to provide better access to finance for micro, small and medium enterprises (MSMEs) in Bulgaria, we negotiated a new on-lending program with the Bulgarian Development Bank.

Our corporate lending portfolio grew by more than 9% in the year substantiating our goal to be one of the leaders in the corporate lending market in Bulgaria. On top of this I should mention the good performance of our Trade Finance department for yet another year in a row. Thanks to the professionalism and the expertise in this area, Postbank was awarded by EBRD as the “most active bank trade financing in Bulgaria”.

In 2015 we continued to refine our business model and change the way we service our customers. We understand that speed and expertise are key requirements for our clients, therefore we worked toward shortening the period of time-to-money and opening new specialized SBB, mortgage and personal banking business centres. This was instrumental in achieving a 20% increase of new disbursed retail loans compared with 2014.

Despite the growth of the new business and the increase of the net loans, Postbank's risk weighted assets fell by a little less than 1%. We kept our capital adequacy ratio at the solid level of 24.7%, well above the regulatory requirement of 13.5% and also above the average for the banking system. This provides us a solid buffer in view of the oncoming comprehensive asset assessment of the Bulgarian banking system due in 2016 as well as enough capital to expand further our lending portfolio.

The excess liquidity in the banking system in the last few years gave us not only the opportunity to reduce our cost of funds, shed excess liquidity and optimize our deposit mix, but also to double our fixed income portfolio and expand our mutual funds' business. The search for higher yield by both individual and corporate customers led to an increased interest in alternative forms of saving. Throughout the year we managed to triple the sales of the mutual funds we offer in close cooperation with the Group and still see good upside potential. On top of that we kept our leading position as a depository bank to local mutual funds and are the sole custodian and security service agent for Clearstream. We were distinguished as a “top rated” custodian by the reputable Global Custodian and Global Investor Magazines for a 5th year in a row.

The year 2015 saw also the start of another milestone project for the bank – the acquisition of the ongoing concern of Alpha Bank in Bulgaria. In November 2015 we signed a definitive agreement with Alpha Bank S.A. on Postbank's acquisition of the operations of Alpha Bank's Branch in Bulgaria. The acquisition was completed in March 2016 with the operational merger planned to be executed in a record three months. The acquisition of Alpha Bank's branch in Bulgaria will not only solidify our positions as the fourth biggest bank in the market in terms of loans and deposits, but also expand our client base and increase our branch network throughout the country. Here, we should thank the Head Office and International Division for this opportunity, including the support in each and every step of the merger and integration process, and also for the excellent cooperation in our daily activities.

None of the achievements briefly listed above could have happened without the active participation of our most valuable asset – our employees. I want to express my gratitude to them as without their loyalty, ambition and hard work the accomplishment of these outstanding results would not have been possible. Aiming to increase the performance and to encourage further cooperation, we created a whole new program for internal communication within the company. We hope this will not only facilitate their work, but will also increase their efficiency and work satisfaction.

We also did not forget that we have a duty to the society as a whole. In 2015 we continued proving that we are a socially responsible company for which the investments in sustainable business development is a main element of our vision. We implemented a series of socially responsible projects in the core areas of education, protecting the environment, sport and corporate donations. Our efforts were highly valued and we received a series of awards by the Bulgarian Business Leaders Forum, the Bulgarian Donation Fund, Confederation of Employers and Industrialists in Bulgaria as well as by many others.

Looking forward, the year 2016 will be a very special year to us, because in this year we will celebrate our 25th anniversary. In these 25 years we proved ourselves as one of the most successful banks in the country. We followed a sustainable and diversified business model, based on innovations and personal relationship with our clients, always being at the forefront of the events and never making compromises with our values.

## FINANCIAL AND BUSINESS REVIEW

What I can promise you is that in the future we will continue to keep our intense focus on business with retail and corporate customers. We set ourselves ambitious targets to effectively satisfy the needs of our clients, better position ourselves in all key segments and exploit and develop innovative banking solutions. We will direct our efforts towards balancing between traditional banking and the new technologies, developing alternative channels through which to provide quality service to our customers and improve sales.

In the past 25 years we established ourselves as one the leading universal banks in Bulgaria. Our target for the next 25 is to become the “individual bank”, treating each client as unique as he or she is, offering impeccable service and tailor-made solution. I am sure we can achieve this as we have the resources, the qualities and the good team to make our vision of the future come true for the best of all our employees, our clients and our shareholders.



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***Petia Dimitrova,***

Chief Executive Officer  
and Chair of the Management Board



## BANK PROFILE

In 2015, Postbank, legally named Eurobank Bulgaria AD, established itself as a modern and dynamically developing bank offering innovative products and financial solutions to its customers. The Bank continued occupying a strategic position in the retail and corporate banking in Bulgaria, and maintained its leading position on the credit and debit card market, housing and consumer lending, savings products, as well as products for institutional and corporate clients – from small businesses to large international companies operating in the country. The financial institution has one of the most developed branch networks and modern alternative banking channels. The Bank's assets reached BGN 5.75 billion as at December 31 2015.

In 2015, Postbank established itself as a leading factor in innovation and shaping trends in the banking sector in the country, winning awards for its innovations. A major pillar in Postbank's success are the significant investments in quality the financial institution makes every year in various areas of its business – banking products and services, information infrastructure, distribution network, staff training, introduction of new alternative service channels, sustainable development and care for the community.

### Important Events during the Financial Year

ПО-СИЛНИ ЗАЕДНО.  
ПОВЕЧЕ ВЪЗМОЖНОСТИ ЗА ТЕБ.

Пощенска банка приветства  
клиентите на Алфа Банк България  
в голямото си семейство.

**Postbank**  
Решения за твоето утре  
www.postbank.bg

In 2015, the Bank maintained its long-term strategy of being a client-oriented, innovative institution working with care for people and the community. It went beyond the conventional market of bank products, by establishing a new client-oriented banking model. The Bank invested in an innovative branch network and 20 new specialized customer service centres in the fields on mortgage lending, personal banking and small business lending were opened by end-2015.

In November 2015, Postbank and Alpha Bank A.E. concluded a definitive agreement for Postbank's acquisition of the operations of Alpha Bank's branch in Bulgaria. After the finalization of the deal in 2016, Postbank will be Bulgaria's fourth biggest bank in terms of deposits and loans, with over BGN 6.6 billion assets, a large branch network across the country and a considerable client base in the retail and wholesale banking segments.

In June 2015, the Bulgarian Credit Rating Agency (BCRA) reaffirmed Postbank's long-term financial rating at BB +, its short-term rating at B with a stable outlook. This is the Bank's fifth credit evaluation by BCRA.

At the beginning of December 2015, Eurobank, the European bank group Postbank belongs to, announced its share capital increase, provided by private and sovereign investors, and by international financial institutions. Institutional and private international investors now own over 95% of Eurobank after the successful share capital increase.

In 2015, the Bank granted new corporate loans totalling almost BGN 500 million to companies in all economic sectors, as the financial institution set even more ambitious development plans for 2016. The most objective assessment of Postbank's success still is its clients' trust and the numerous awards it received in 2015. The European Bank for Reconstruction and Development distinguished Postbank with the Most Active Issuing Bank in Bulgaria award for commercial financing for a second consecutive year.

The Bank successfully developed mutual funds distributions and tripled its sales volume in 2015. The financial institution had considerable achievements in investment banking and received many prestigious international awards for its custody services. For the fifth consecutive year, in April, Postbank was named number one custodian bank on the local market by Global Custodian magazine and ranked first in Bulgaria in the custody services chart of Global Investor magazine.

Also in April, Postbank received a very valued recognition by the Bulgarian business sector – first place in the Innovations category of the annual awards for successful business of the Confederation of Employers and Industrialists in Bulgaria. The prestigious award was bestowed to the financial institution for its innovative approach to banking, for the development of products, new for the Bulgarian market, and the set-up of modern service channels and web-based services.

In September, Postbank was the only financial institution representing Bulgaria, reaching the finals of the 9th edition of the international contest for best business practices and high achievements – the European Business Awards.

In August, the financial institution granted a total of BGN 30 million loans to small and medium-sized companies in Bulgaria in line with the partnership agreement under the new programme of the Bulgarian Development Bank for indirect financing of Bulgarian businesses, called Napred (Forward). Under the new credit line, Postbank financed companies planning to develop, open new jobs and contribute to Bulgaria's economic growth. The loans were designed for operating and investment purposes, project financing of technological renovation and for improvement of the small business competitiveness and potential.

Throughout the year, Postbank organized a number of specialized conferences under the slogan "Postbank Meets Business" in support of the business in the country (Dupnitsa, Vratsa, Montana, Yambol, Haskovo, Pazardzhik, Razgrad, Varna, Burgas, Silistra, Targovishte, Plovdiv, Kardzhali and Kazanlak). The meetings' objective was Postbank's experts to present strategic solutions in support of the business and entrepreneurs in the respective regions. In 2015, the financial institution launched its latest initiative, Open Doors for the Business, which provided consultations for small and medium-sized enterprise funding with favourable conditions in various cities in Bulgaria (Varna, Burgas, Sofia, Silistra, Targovishte and many others).

### **New Products and Innovations**

In 2015, Postbank continued to invest in providing innovative solutions and some of the highlights included the consumer lending offers to the Bank's customers.

The Bank developed and presented its new smartphone application, MyCard, which was specially developed for Postbank's credit card holders. The modern and interactive application is unique for the market. Using a Google-based map, it shows the shortest route to any branch or ATM of the Bank in the country. The app also provides detailed information about any of Postbank's partners in the MyRewards loyalty programme, including available discounts and the outlets' contacts.

### Awards

Postbank is among the most frequently awarded companies in Bulgaria. In 2015, it received a record number of 21 prestigious awards in various fields, given by independent and highly respected Bulgarian and international institutions:



30 November 2015, Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board, received the prestigious Mrs. Ikonomika (Mrs. Economy) award in the Mr. and Mrs. Ikonomika 2015 competition, organized by Economy magazine and the Confederation of Employers and Industrialists in Bulgaria.



1 December 2015, Petia Dimitrova was named Banker of the Year 2015 at the 22nd annual awards, organized by Banker Weekly.

29 April 2015, Postbank received an exceptionally valued recognition by the Bulgarian business – a first-place award in the Innovations category of the Annual awards for successful business of the Confederation of Employers and Industrialists in Bulgaria.





5 November 2015, Postbank received the *Mystery Shopper* prize of the *Bank of the Year 2014* contest, organized by *Association Bank of the Year*.



8 December 2015, Doncho Donev, Head of Capital Markets Division at Postbank, was named *Young Banker of the Year 2015* in the *New Generation: Bankers awards*, organized by *Standart Daily*.



26 February 2015, Postbank was named *Investor in Society* for its strategic partnership with UNICEF Bulgaria, called *Best Start for Every Child*, at the *Annual Awards for Responsible Business* organized by the *Bulgarian Forum of Business Leaders*.



27 May 2015, Postbank received an *EFFIE* award for *The Saving Mortgage Loan* advertising campaign, occupying the third place in the *Services* category in the marketing effectiveness contest, *EFFIE Bulgaria 2015*.

20 November 2015, *Best Start for Every Child* was distinguished in the *Most Sustainable Donor's Programme* category of the 10th annual awards, organized by the *Bulgarian Donors Forum*, given in the presence of the President of the Republic of Bulgaria.



- 15 April 2015, *Global Custodian* magazine named Postbank *The Best Custodian Bank* in Bulgaria.
- 15 April 2015, *Global Investor* magazine, a leading magazine published by *Euromoney*, which focuses on trends in asset management and investment banking, named Postbank the *Number One Sub-custodian* in Bulgaria;
- 29 April 2015, *Best Start for Every Child* received a second-place award by the *Bulgarian Association of PR Agencies* in the *Sustainable Development* category;
- 18 May 2015, for the second consecutive year, Postbank was named the *Most Active Issuing Bank* in Bulgaria by the *European Bank for Reconstruction and Development* under 2014 Trade Facilitation Programme;
- 20 May 2015, *Best Start for Every Child* took the second place in the *Sustainable Development Campaign – Business* category of *PR Prize 2015*;
- 20 May 2015, *Take Now, Pay back in Installments* won the third place in the *Product or Service Campaign* category of *PR Prize 2015*;
- 20 May 2015, Postbank received a special award for *Sustainable development for the green initiative, For the Bicycles and Their People*, by *Manager* magazine in the contest *PR Prize 2015*;
- 26 May 2015, Postbank won the first place in the *BG Green Awards 2015* contest, competing in the *Big Companies* category. Organizers – *b2b* magazine and *Go Bio* magazine;
- 28 May 2015, Postbank won the first place in the *Financial, Banking, Accounting and Legal Services* category of the 5th annual *b2b Media* contest, *The Greenest Companies in Bulgaria 2014*;
- 16 June 2015, the Bank was bestowed *The Best Marketing Team* award in the *Product Re-launch* category of the annual contest for marketing communications' achievements, *BAAwards 2015*, organized by the *Bulgarian Association of Advertisers*;
- 1 September 2015, Postbank was the only financial institution from Bulgaria that reached the finals of the 9th edition of the *International Competition for Best Practices and High Achievements* in the business sector, the *European Business Awards*;
- 8 November 2015, the *Best Start for Every Child* campaign was awarded in the *Healthcare and Healthcare Initiatives* category of the *Golden Heart Annual Charity and Corporate Social Responsibility Awards*, organized by *Business Lady* magazine;
- 22 November 2015, *Investor in Public Communication* – an award within the framework of the *Day of Bernays 2015 event*, organized by the *Bulgarian Public Relations Society*, given to Postbank for its contribution to the development of public communication in Bulgaria and the implementation of good practices.

## FINANCIAL REVIEW

## BALANCE SHEET

(All figures  
are in '000 BGN)

	2015	2014
Net loans and advances to clients	3,895,819	3,833,994
Core client deposits	4,604,805	5,077,273
Shareholders' equity	914,184	817,497
Total Assets	5,752,662	6,138,345

PROFIT AND  
LOSS STATEMENT(All figures  
are in '000 BGN)

Net interest income	236,359	211,283
Net fee and commission income	60,140	59,739
Net trading loss/gain	566	-123
Other operating income	518	285
<b>Total operating income</b>	<b>297,583</b>	<b>271,185</b>
<b>Total operating expense</b>	<b>112,384</b>	<b>126,455</b>
Deposit Insurance Fund	-25,063	-20,974
Provisions for impairment	-66,601	-122,981
Profit before tax	93,535	774
Income tax	9,435	96
Profit after tax	84,100	677

KEY FINANCIAL  
RATIOS

<b>Total Capital Adequacy Ratio</b>	<b>24.73%</b>	<b>24.83%</b>
<b>Net Interest Margin</b>	<b>4.1%</b>	<b>3.4%</b>
<b>ROA (after tax)</b>	<b>1.4%</b>	<b>0.0%</b>
<b>ROE (after tax)</b>	<b>9.7%</b>	<b>0.1%</b>
<b>Earnings per Share</b>	<b>0.19</b>	<b>0.00</b>
<b>Total funding</b>	<b>4,785,603</b>	<b>5,276,463</b>
<b>Fees &amp; Commissions/OPEX</b>	<b>53.51%</b>	<b>47.24%</b>
<b>Provisions/Loans</b>	<b>1.7%</b>	<b>3.2%</b>
<b>Provisions/Operating income</b>	<b>22.4%</b>	<b>45.3 %</b>
<b>Cost/Income Ratio</b>	<b>37.8%</b>	<b>46.6%</b>
<b>Net Loans/Deposits Ratio</b>	<b>85</b>	<b>87</b>



### Economic Situation in Europe

The EU economy continued its modest recovery, led by consumption and improving trade prospects. In 2015, the EU economy grew by 1.9%, up from 1.4% in 2014. An even better trend was observed in the euro area countries – the GDP growth was increased from 0.9% in 2014 to 1.6% in 2015. The factors, which contributed to 2015 results will continue being present in 2016 – the fiscal and monetary policies will continue supporting the recovery, while the falling energy prices will provide a further boost to households' real income and consumption. The mild devaluation of the euro improved the export prospects and provided a further boost to growth. While some of the above effects will fade away in 2016, the economy will be supported by the ECB's expansionary monetary policy. Nevertheless, growth in 2016 is expected to deflate slightly to 1.8% before rising again to 1.9% in 2017.

### Economic Situation in Bulgaria

Bulgaria's GDP grew by 3% in 2015, well above the analysts' forecasts, driven by export and investments. The real growth of export was 7.6% with both goods and services showing a strong increase. Investments were up by 2.5%, as the absorption of EU funds picked up before the end of the previous programming period. Despite the decrease in unemployment (by 0.7 pp to 10%) and the drop in oil prices, domestic demand rose by just 0.7%, not meeting initial forecasts. It is expected to recover in 2016 and offset the slowdown of net exports. The trade balance, however, has been steadily improving over the years – from a low of -EUR 8.6 million in 2008 to -EUR 1.9 billion in 2015.

	2013	2014	2015
GDP growth (%)	1.3	1.6	3.0
Inflation (%)	-1.6	-0.9	-0.4
Unemployment (%)	11.8	10.7	10.0
GDP per capita (BGN)	11,275	11,561	12,001

	2012	2013	2014
Loans to GDP	72%	73%	68%
Deposits to GDP	72%	78%	78%
Loans to Deposits	101%	94%	87%

The consumer price index finished on a negative territory for the third consecutive year, driven by the falling prices of oil and other energy supplies. As this effect is gradually waning during the current year, inflation is expected to pick up, but will still be negative in 2016.

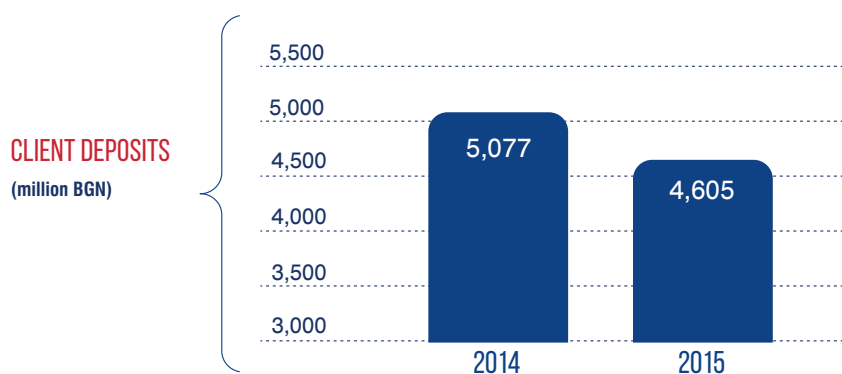
The budget registered a deficit of 2.1%, lower than the 2.8% target, as the Government spent heavily in the last months of 2015, including investment related to EU fund absorption.

The situation in the banking system as a whole remained stable. Net profit increased by 20% on an annual basis to BGN 898 million, the highest level since 2008, however, this was due to the ongoing decrease of funding costs, rather than to improved lending prospects. Deposits increased by almost BGN 5.1 billion, most of which was contributed by households – BGN 3.4 billion. Corporate deposits rose by a record amount in nominal terms, suggesting that companies were still reluctant to invest and preferred saving their profits. The extra liquidity allowed banks to continue reducing their offer rates and interest expenses fell by a third year-on-year (by BGN 450 million). Lending remained subdued – corporate loans decreased by more than BGN 1 billion during the year, while household loans rose modestly by BGN 20 million. Net of one off effects, the market remained largely flat, but the strong competition drove down interest income by 8% (BGN 314 million). Net fees and commission income grew by 7% year-on-year (BGN 62 million), but this could only partially compensate a further squeeze of the net interest margins,

especially given the limited possibilities for further decrease of the cost of funds. Impairment expenses were largely kept the same as last year's – BGN 1.1 billion which is a signal that banks were preparing for the comprehensive asset review due in 2016.

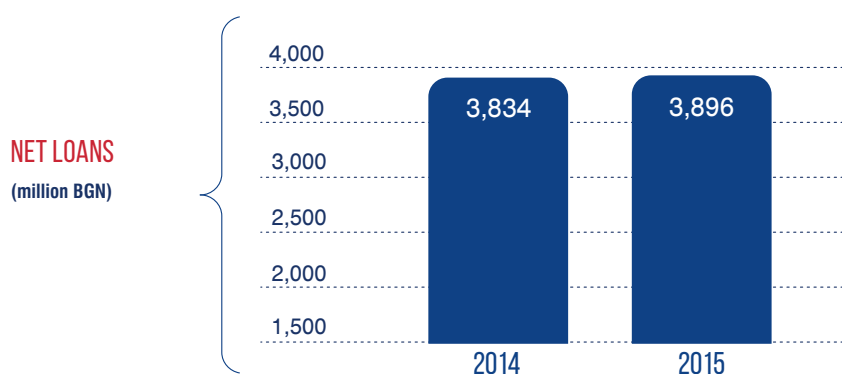
### Deposits and Liquidity

With the liquidity inflow on the market still strong, at the beginning of 2015, the Bank's management decided to use the opportunity and improve its profitability, by optimizing the excess liquidity and reducing interest rates faster than the market. This led to a liquidity outflow in the first half of the year, predominantly expensive term deposits and saving accounts. Interest rates dropped by half in the same period to levels below the market average. The equilibrium level was reached in the third quarter and by the end of the year deposits were growing again, especially the current accounts which were the main focus of the Bank.



### Net Loans

Net loans increased by 1.6% to BGN 3,896 million, in contrast to market trends. Corporate loans went up by 4% to BGN 2,369 million, contributing to Postbank's ambitions to be one of the leaders in the corporate lending market in Bulgaria. Mortgage loans increased by 2% to BGN 1,331 million, despite the strong competition in the segment.



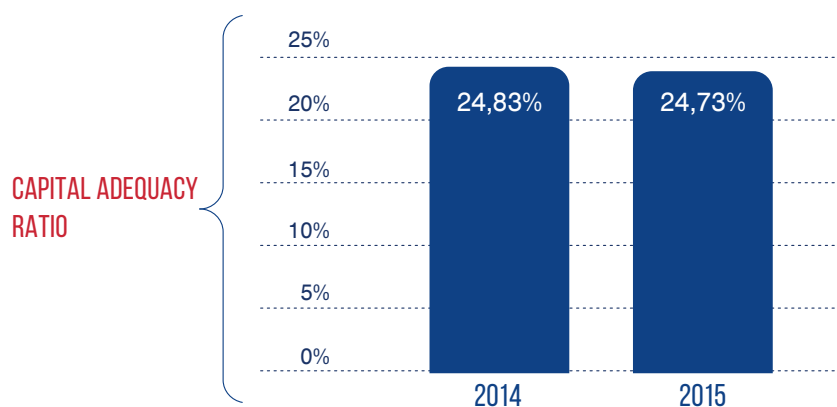
### Capital Adequacy

The capital adequacy ratio remained stable in 2015 – 24.73% which was more than 2.5 pp over the average in the banking system (22.18%) and also well above the regulatory requirement of 13.5%. The slight decrease of 10 bps in 2015 was due to the two subordinated loans, which entered a five-year period to maturity in the middle of 2015 and were gradually being amortized. The recapitalization of 2015 net profit will further strengthen the capital base and ensure that the acquisition of Alpha Bank Bulgaria will not affect the capital adequacy ratios.

### Operating Income

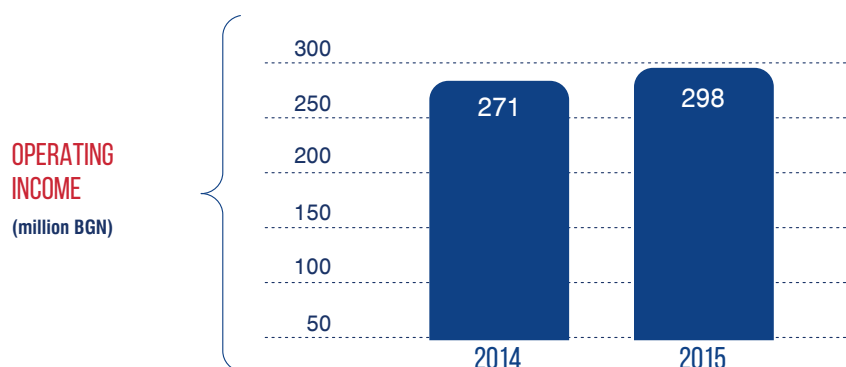
The total operating income rose by 10% to BGN 298 million. This was mainly due to the decrease in the interest expenses which shrank by more than 50% to BGN 67 million, helping the improvement of the net interest income by 12% to BGN 236 million. The interest income was still being eroded by the competition on the market which was pushing the rates of the new loans downwards and was encouraging the repayment of legacy loans, but in December 2015, the trend was finally reversed and the interest income started rising again. Net interest margin showed a substantial improvement from 3.4% to 4.1%, due to both the improving income and the shedding of unproductive assets from the ratio's denominator.

The net fee and commission income increased by 1% to BGN 60 million due to higher income from transfers, account maintenance and increased transactions via cards in line with the Bank's strategy to be the main servicing bank of its clients. The net fee income covered 53% of operating expenses with a solid 7 pp improvement, compared to 2014.



### Operating Expenses

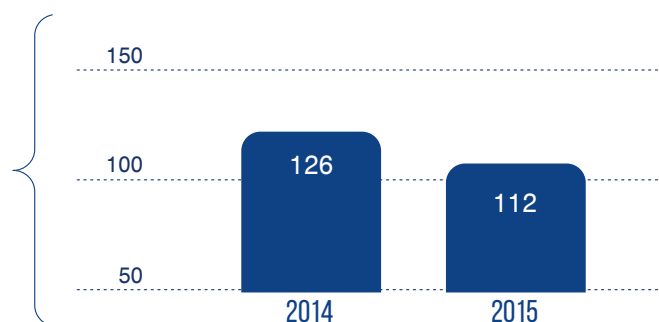
In 2015 Postbank was able to exploit to the full extent the benefits from the restructuring process, which started in 2014 and was successfully completed at the beginning of 2015. Operating expenses decreased by 11% for the year to BGN 112 million. The decrease would have reached even 15% if non-recurring positive effects were excluded from 2014 expenses. The net costs for deposit insurance and bank restructuring funds, and the cost-to-income ratio improved by almost 9 pp to 37.8%.





## FINANCIAL AND BUSINESS REVIEW

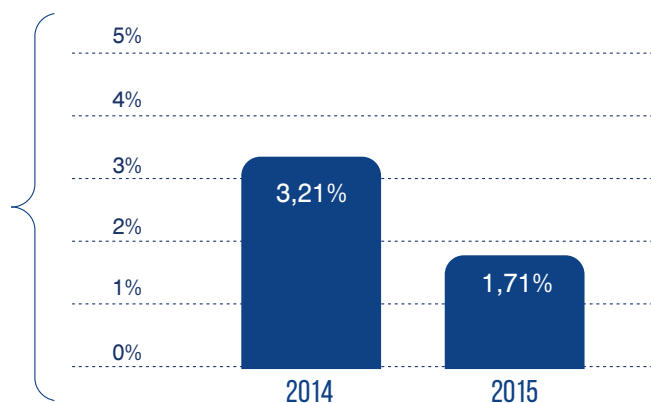
**OPERATING  
EXPENSE**  
(million BGN)



### Cost of Risk

In 2015, there was a noticeable improvement in the formation of new loans past due more than 90 days. The balance of loans past due more than 90 days decreased slightly by 1%. The Bank set aside further BGN 66.6 million provisions for impairment throughout the year which is 46% less than in 2014, still the coverage ratio improved by 5 pp to the healthy level of 62%. The cost of risk almost halved to 1.7% with a significant downward potential in the next few years.

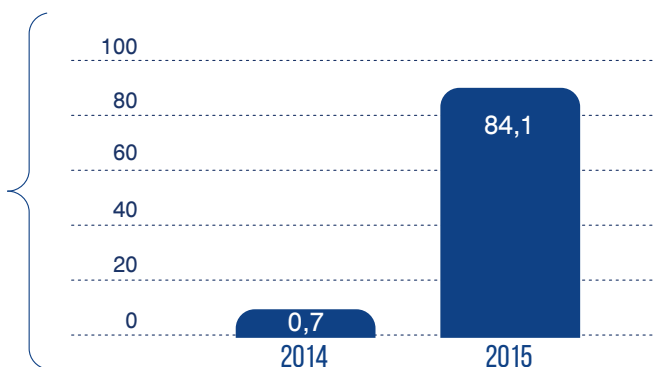
**COST OF RISK**



### Net profit and Profitability

With a net profit of BGN 84.1 million in 2015, the highest in the Bank's recent history, the profitability ratios returned to pre-crisis levels. Return on assets stood solid at 1.4% and the 9.7% return on equity was only slightly below the double-digit mark. With interest income stabilizing and provisions for impairment on a downward trend, the Bank's profitability of is set to improve further in 2016.

**NET PROFIT**  
(million BGN)



# BUSINESS OVERVIEW

## INDIVIDUAL BANKING

### MORTGAGE LENDING

#### Mortgage Lending Business in 2015



In an increasingly dynamic market and strong competition, Postbank ranked once again among the leaders in mortgage lending. The innovative solutions the Bank offered for the first time in Bulgaria set 2015's mortgage lending trends. The strategy of implementation of modern digital services and development of new types of products was very successful and was appreciated by customers. The latter was confirmed by the excellent business results, achieved for the fifth year in a row. Postbank for another year maintained the trend of sustainable growth in new mortgage loans, reaching an 11% increase in 2015, compared to 2014. The Bank has generated a 50% hike in new mortgage loans in the last three years.

There were positive trends on the real estate market in 2015. The demand for real estates increased, especially for new and high-quality apartments located in the big cities. Prices began to rise and the number of purchases increased. Another distinctive feature of 2015's real estate market was related to a serious drop in deposit interest rates. An increasing number of consumers started

investing in real estate and paying the purchase price with their own savings. Despite the increased number of real estate deals, mortgage lending in Bulgaria did not meet the growth expectations for 2015. Competition in the field of mortgage lending remained strong, as local banks were very active in their efforts to attract new clients throughout the whole year.

In terms of pricing, mortgage loans became very attractive, especially because interest rates reached levels significantly lower than the pre-crisis ones. Meanwhile, customers were becoming increasingly demanding regarding mortgage loan offers. They were trying to obtain the most favourable prices and demanded standards meeting their high requirements for quality of service, personal attention and additional benefits provided by the selected bank.



### Innovative Products and High-quality Banking

In 2015, Postbank continued offering the attractive and innovative products launched on the mortgage market in previous years. These products helped the Bank become a preferred partner of customers and brought international recognition and awards. There was an increased demand for modern financing solutions providing more benefits to customers. This is confirmed by the success of the Saving Mortgage Loan product, which is unique for the Bulgarian market. It was among the Bank's most popular mortgage lending products in 2015.

Postbank continued developing flexible financial solutions adjusted to its customers' needs. Thus, in 2015, the financial institution launched for the first time in Bulgaria an attractive initiative, called *Win Your Mortgage Paid for a Year*. Customers applying for mortgage financing had the opportunity to win free installments of their mortgage loan in the first year of the repayment period. The campaign achieved significant success, resulting in loan applications totalling BGN 53 million.

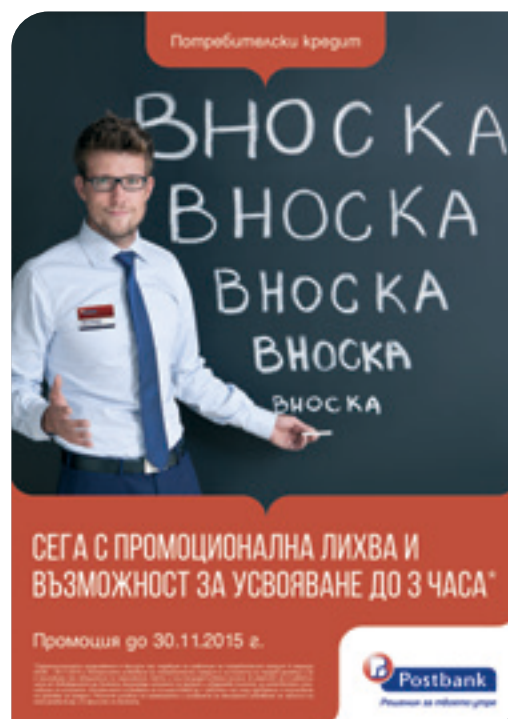
Postbank's new individual banking strategy is based on a modern banking model, combining innovation and specialized services for different client groups. This is why, in 2015, the Bank made considerable investments in the development of an innovative branch network which provided the highest level of service to its customers. The new business model was applied to mortgage loans as well and at the beginning of 2015 the Bank opened the first Mortgage Lending Centres in Sofia, Plovdiv, Varna and Burgas. After a few months, the network was expanded with new centres in Sofia and Stara Zagora. Customers appreciated the advantages of the specialized professional service the Bank provided in the centres and at the end of the year they accounted for 50% of the new mortgage business of the financial institution.

## CONSUMER LENDING

### Consumer Loans

For Postbank 2015 was yet another year marked by the dynamic development of consumer lending. The Bank continued following a customer-oriented approach as a key part of its strategy, aiming at being recognized as a major financial institution which provides customers with a comprehensive set of services, rather than as just an ordinary source of financing.

At the beginning of 2015 (February-April), the Bank launched a large-scale ATL campaign for balance consolidation with the marketing message: "Decrease your monthly instalments by up to 40%". The campaign was designed for customers with two or more credit liabilities to several banks who would save time and money if consolidated them in a single loan. The campaign contributed to a 57% increase in this type of financing during the first four months of the year, compared to the same period in 2014.





## FINANCIAL AND BUSINESS REVIEW

In the middle of the year (June-July), the Bank started a second large-scale ATL campaign which was built on an entirely new consumer loan concept, featuring decreasing installments. The product offered a unique opportunity to customers to pay lower interest expenses by up to 15% as opposed to annuity loans with the same parameters. The campaign was relaunched in the last quarter of the year (October-November).

Throughout the entire 2015, customers showed an increasing interest in the express financing option, launched at the end of 2014, after submitting loan applications. This type of financing accounted for 8% of all the Bank's disbursed consumer loans just a year after its launch.

The alternative channels for submission of consumer loan applications also saw an increased usage. More and more customers preferred applying for online banking. In comparison to 2014, the Bank reported an 80% increase in the volume of the disbursed consumer loans, submitted using the online form on the corporate website. This service allows customers to save time from visiting a branch and to have the freedom to apply for a loan at any moment of the day.

As a result of all advertising and promotional campaigns, as well as of other initiatives and innovations, the total volume of the new disbursed consumer loans saw a 14% increase in 2015, compared to the previous year.

After joining the state-financed programme for student loans in 2013, Postbank launched a promotional campaign (August-November) for the second consecutive year, utilizing a variety of communication channels, including advertising activities at universities' premises. The promotional offer provided an attractive interest rate of 6.50%, making Postbank the first bank among the other participants in the programme offering an interest rate lower than the maximum one specified by the law (7.00%). As a result of the initiative, the Bank reported a 95% increase in the total volume of approved loans, compared to 2014.

### Auto Business



The market of new automobiles in Bulgaria rose by approximately 10% to 28,000 sold units in 2015, compared to the previous year. The strategy throughout the year was aimed at achieving a solid partnership with key vendors through cooperation agreements, including the development of overall business relations at a bank level.

Numerous events and local campaigns were organized in cooperation with several official car dealers and importers. The Bank participated in June in the traditional exhibition, Sofia Motor Show, alongside with ERB Leasing, Postbank's leasing company.

At the background of the increasing number of sold vehicles in the country, the total volume of new auto

businesses saw a similar increase of 10%, compared to 2014, while the total auto leasing portfolio went up by more than 7%.

### Card Business



In 2015, Postbank remained focused on the quality and uniqueness of the products and services it offered to customers. Postbank credit card holders had the opportunity to take advantage of the many attractive shopping offers. The Bank continued its strategy of encouraging purchases paid via credit cards in equal monthly installments. It carried out several highly successful campaigns for interest-free purchases in installments jointly with retailers such as Technopolis, Technomarket, Praktiker and Techmart. The financial institution and IKEA launched two joint promotional initiatives. At the end of the year, the Bank offered something completely new for the Bulgarian market – all Postbank customers, holders of credit and debit cards, had the opportunity to buy selected Philips products with a 40% discount from a special website.

In 2015, the Bank added to its wide range of card products Debit MasterCard World – a high-class card providing customers with security, comfort and unique benefits. By using it, customers automatically enter the Bank's loyalty programme, MyRewards. It provides

them with benefits and medical insurance when traveling and can be used anywhere in the world and online.

In December, Postbank started issuing the innovative contactless credit cards, MasterCard Standard and MasterCard World.

The Bank continued developing the MyRewards loyalty programme for customers with bank cards, reinforcing its position as one of the most generous programmes in the country. In 2015 alone, Postbank's loyal customers received rewards totalling almost BGN 2 million.

All implemented initiatives led to a 6% increase in the total turnover from credit cards and a 9% increase in the turnover from debit cards. In terms of POS terminal payments, credit card turnover went up by 17% and debit card turnover – by 15%.

## INSURANCE BUSINESS

### Results and Initiatives in 2015

In 2015, Postbank maintained the trend of a stable increase in income from insurance sales. The Bank achieved a 37% hike in insurance income, compared to 2014. Sales of insurance programmes for consumer loans and debit cards, and auto insurances generated the highest growth rate.

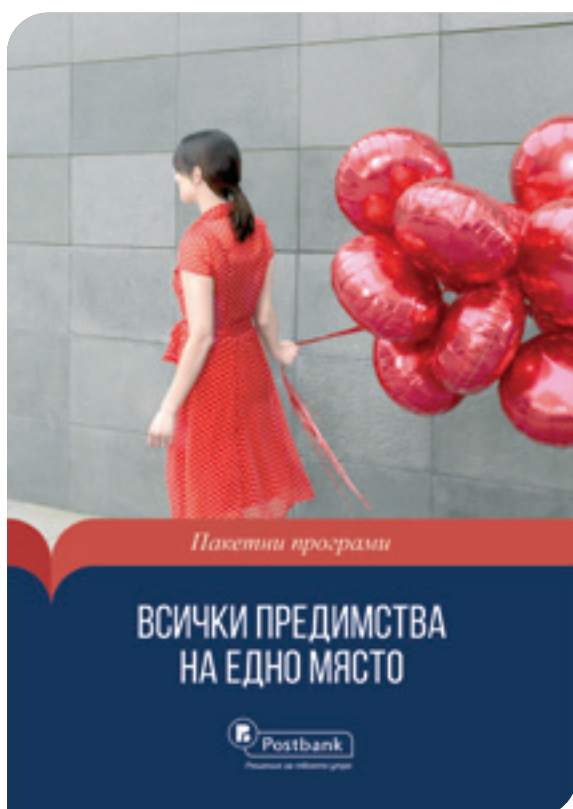
Postbank conducted the first of its kind campaign for boosting the sales of auto insurances, Third Party Liability and Casco – *Win Free Auto Insurance*. The campaign contributed to a more than 130% increase in revenues from auto insurance sales, compared to 2014. Ten of Postbank's customers received free auto insurances.

### New Insurance Products

In June 2015, Postbank expanded its insurance product range with the implementation of four new types of insurance packages for individual clients. The new insurance products had attractive and innovative coverage, and were specially tailored for Postbank's customers. Some of the insurance programmes included discounts when they were bundled with the programme, *My Family*. This approach of combining benefits for customers is a part of the Bank's strategy for further development of cross-selling.

Postbank also updated the coverage of the existing insurance programme for debit cards, by including entirely new risks in the scope of protection and by widening the coverage of the existing risks. This way, Postbank's card holders received better security and higher protection of their card transactions.

### Package Programmes



In 2015, the Bank continued its strategy of developing flexible financial solutions which bring additional benefits to customers. As a part of the modern client-oriented initiatives, Postbank started offering new types of programmes for elaborate banking services in mid-2015. The programmes designed for individual clients are: *My Banking*, offering optimal solutions for everyday banking, *My Finance*, providing appropriate solutions for active users of financial services, and the innovative programme, *My Family* – the first banking programme in Bulgaria designed for the whole family. It can be easily adjusted to clients' financial needs, while household members, themselves, can decide which products to activate and what types of advantages to use. Unlike the conventional banking packages, the new programme offers innovative solutions for protection of the family budget.

There was a significant sales increase from the launch of *My Family* programme in June to end-2015. In December 2015, the Bank achieved a 300% increase in the number of newly-opened programmes, compared to June 2015. This programme is very well-suited for cross-selling opportunities with credit products. 81% of *My Family* accounts were bundled with consumer and/or mortgage loans at end-2015.

### Small Business Banking

2015 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 strong competition, higher demand led to an increase in the volume of new business loans generated in this market segment. In 2015, the main objective of Postbank's Small Business Banking Division was to strengthen the Bank's leading role in small business lending. Postbank focused on micro-



**ЦЕНТЪР „БАНКИРАНЕ МАЛЪК БИЗНЕС“**

**ВЛАГАТЕ ТВОРЧЕСТВО В  
БИЗНЕСА СИ. НИЕ СЪЩО.**  
**Всички отговори за Вашия бизнес.**

and small enterprises which opened new jobs and added value to the economy. Postbank is convinced they are making a vital contribution to the economic sectors they operate in.

The Bank continuously strived to ensure that its clients had a better vision for their business, difficulties and prospects, and to maintain with them long-term relations based on trust and understanding. This is why, Postbank aimed not only at providing the best credit solutions, but above all, at being a trusted partner for the years to come.

The Bank continued offering its customers a wide range of credit and non-credit products which supported their competitive positioning.

In 2015, Postbank successfully introduced specialized loan products designed for farmers, doctors, dentists, pharmacists

and medical clinics. The Bank signed an agreement with the Bulgarian Development Bank for Napred (Forward) programme, which gave an extra boost to the annual results, highlighting the competitive advantages of the products.

The Bank further developed its strategy for better service quality with the opening of another seven specialized Small Business Banking centres. The first one was launched in 2014. A total of 10 centres gradually started operating by end-2015. Postbank's ambition by mid-2016 is to increase their number to 20, to open such centres in all major cities in the country and to achieve a substantial share in new small business loans.

The Bank launched numerous marketing campaigns, organized meetings with clients in the country, 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 carried out in 15 cities in the country.

The Bank's 2016 priority will be to develop its business with medium-sized enterprises in order to increase their stability and boost their growth. In 2016, Postbank will focus its efforts on providing better and new services to farmers, and client-tailored offers to companies applying under European operational programmes. Furthermore, the Bank's goal is to meet the growing loan demand, thus widening its client base.

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

### Wholesale Banking Sector

Adhering to the motto, “We win our clients with high-quality service and attitude”, the employees of Corporate Banking and Capital Markets divisions, and of Corporate Transactional Banking Department provided successful solutions and service excellence to their corporate and institutional clients. Managed by Mr. Asen Yagodin, Postbank Executive Director, the Wholesale Banking Division managed to improve again both its financial results and service quality.

### Corporate Banking Division



Postbank's Corporate Banking Division services companies with annual sales turnover of over BGN 2 million. As part of this structure, the Large Corporate Clients and the Medium Corporate Clients departments provide specialized business solutions directly from the Bank's HQ or through its well-developed network of corporate business centres across the country.

In 2015, the Corporate Banking Division granted more than EUR 240 million in new loans to Bulgarian companies in various industries. EUR 175 million of it was disbursed by the Large Corporate Clients Department to leading companies in structural economy sectors. The rest EUR 65 million was used to provide fresh financing to support medium-sized businesses.

At the end of 2015, a new unit was created within the structure of the Medium Corporate Clients Department in order to service EU-funded projects. It has been operating since 2016, facilitating the proper structuring of EU-funded projects.

### Corporate Transactional Banking Department

The liquidity crisis turned out to be a true challenge for the management of the deposit base, especially in the first half of the year. This sustainability test was positively transformed into an opportunity for a more efficient management thanks to the professionalism of the employees within the Corporate Transactional Banking Department. Not only volatilities were successfully overcome, but also the deposit base structure was optimized and cost of funds was significantly decreased. For a consecutive year, a hike in both the current accounts balance and number was recorded due to the efforts of the department's employees servicing privately-owned and state-owned companies.

For the third year in a row, Postbank was awarded by the European Bank for Reconstruction and Development as the *Most Active Issuing Bank* under its Trade Facilitation Programme.

The Factoring section, part of the Corporate Transactional Banking Department, also continued achieving significant success. In 2015, Postbank kept its leading position on the market for the third consecutive year, being factor number one in Bulgaria with a 36% market share of the total volume of factoring services in the country.



### Capital Markets

In 2015, Postbank strengthened its leading role on the local capital market. In the light of an extremely dynamic market environment, the Bank succeeded in extending the range of its financial products and services. As a result, Postbank enlarged its client base and was recognized as a preferred counterparty for FX and security trading by local and foreign clients.

### Asset and Liability Management

Restructuring of the deposit base tenor mix and cost of funds optimization were among the key targets the Asset and Liability Management (ALM) unit effectively achieved. ALM/Treasury Division successfully managed the Bank's overall risk exposure concerning its balance sheet structure and liquidity position. The prudent liquidity management provided for stable liquidity reserves throughout the year. All liquidity ratios were preserved well above the regulatory thresholds in 2015.

The utilization of the accumulated liquidity for extending new loans to clients remained the major challenge for the Bank, as well as for the whole banking system.

Aiming to provide better access to finance to micro-, small and medium-sized enterprises (MSMEs) in Bulgaria, the Bank negotiated a new on-lending programme with the Bulgarian Development Bank (BDB). The programme combines financing and risk sharing – the BDB provided full financing for sub-loans to MSMEs and shared up to 30% of the risk through a loan portfolio guarantee. In 2015, Postbank actively utilized the funding under the European Bank for Reconstruction and Development's Trade Facilitation Programme it joined in 2013.



### Treasury Sales

Despite the greatly challenging market environment in 2015, the Treasury Sales Department managed to keep the Bank's position as one of the leading FX financial institutions on the local market in terms both of volume and product offering. The department managed to maintain a stable market share in terms of institutional deposit volume and achieved significant optimization in terms of cost of funds and product mix. The Brokerage Section, which has been part of the Treasury Sales Department since the beginning of 2015, contributed to the stable position of the Bank as one of the most active investment intermediaries on the Bulgarian Stock Exchange (BSE). Postbank ranked among the top 10 brokers on the BSE, based on the number of deals in 2015. The Bank is privileged to have the highest number of clients using e-commerce services for BSE transactions.



### Trading and Investment Banking

For a consecutive year, Postbank remained among the most active players both on the primary and the secondary bond markets. The department actively managed the size and risk of the Bank's fixed income portfolio, incurring substantial trading profits and capitalizing interest income. In 2015, the Bank further boosted the flows of foreign government and corporate bonds, leveraging its trading lines and contacts with leading international banks and brokers. The Bank successfully doubled the size of its fixed income portfolio in 2015 (a 39% YoY increase), taking advantage of the market conditions of "ultra-low" interest rates, falling bond yields, excess liquidity and lack of corporate and retail credit demand.

### Custody

In 2015, Postbank preserved its leading position as a depository bank of local mutual funds and remained among the leading banks, offering a full suite of security services in line with the international standards. Postbank has been offering for 12 years safekeeping of all types of local and foreign securities with access to more than 100 international markets. The Bank remained the sole custodian and security service agent of the biggest European central securities depository, Clearstream Banking Luxembourg, and was distinguished as a "top-rated" custodian by the reputable Global Custodian and Global Investor magazines for the fifth year in a row.

### Mutual Funds Distribution

2015 stood out as an extremely successful year for Postbank in terms of mutual fund sales. Net sales of Luxembourg Mutual Funds distributed through the Bank's branch network tripled and the number of new clients of mutual funds doubled, compared to the previous year.

# GOVERNANCE STRUCTURE AND RISK MANAGEMENT

## MANAGEMENT AND REPRESENTATIVE BODIES

The bank has three management and representative bodies: the General Shareholders' Meeting, the Supervisory Board and the Management Board. Their duties and authorities derive from the Commerce Act, the bank's statute and each respective board Terms of Reference. Shareholders, as the owners of the bank's business and assets, exercise their rights at the General Shareholder's Meeting. All shareholders have the right to participate either in person or by a proxy. The General Shareholder's Meeting is the only corporate body entitled to decide on issues such as amendments to the 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 shareholders holding more than half of the total number of the shares of the bank are present and/or represented. Lower quorum is required in repeat General Meetings if initial quorum is not reached. Resolutions are reached by simple majority. Exceptionally, with regard to certain significant decisions such as amendment and supplement of the bank's statute, decisions related to share capital, issuance of convertible bonds, etc., resolutions are reached by two-thirds majority. Decisions on the transformation of the bank require positive vote of three-fourths of the represented number of shares. In case such qualified majority is required, resolutions are taken only if at the General Meeting are present and/or represented shareholders holding more than one half of the total number of the shares of the bank.

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

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

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

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

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

### Management Board

The Bank is managed and represented by 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 the best interest of the Bank's shareholders, clients and employees, to achieve sustainable growth in the shareholder value, to safeguard the Bank's interest, to report to and keep the Supervisory

Board informed about all significant matters regularly, promptly and comprehensively, to prepare the Annual Activity Report and the Annual Financial Statement and submit them with the registered auditors and the Supervisory Board, as well as other functions and responsibilities specified by the law and the bank's statute.

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 Bank's management and representation to two or more Management Board members – the Executive Directors.

Since 31 December 2014, the Management Board has consisted of three members – two executives and one non-executive. The membership and term of office of the Management Board are approved by the Bank's Supervisory Board upon the announcement of the BNB's preliminary approval of the appointment of Management Board members at the respective position of the Board.

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

### Supervisory Board

The Supervisory Board exerts overall control on the Bank's business and financial activities and oversees the process of the compliance of its activity with the applicable law, the statute and the resolutions of the General Meeting in the best interest of the Bank's shareholders, clients, 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 dismisses Management Board members, approves certain major transactions and resolutions of the Management Board, verifies and approves the Annual Financial Statement, the Annual Report and the profit distribution draft, resolves to call the Annual Regular General Shareholders' Meeting and performs other functions and responsibilities specified by the law and the Bank's statute.

The Supervisory Board is entitled to request at any time that the Management Board 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.



The Supervisory Board has consisted of five members since 31 December 2015. The membership and term of office of the Supervisory Board are approved at the Bank's General Meeting upon the announcement of the BNB's preliminary approval of the appointment of Supervisory Board members at the respective position on the Board.

- Mr. Theodoros Karakasis – Chairman of the Supervisory Board
- Mr. Stavros Ioannou – Member of the Supervisory Board
- Mr. Mr. Michalis Louis – Member of the Supervisory Board
- Mr. Anastasios Nikolaou – Member of the Supervisory Board
- Ms. Christina Theofilidi – Member of the Supervisory Board

Mr. Antonios Hassiotis and Mr. Nikolaos Aliprantis were members of the Supervisory Board until 16 October 2015. They were replaced by Mr. Stavros Ioannou and Mr. Michalis Louis on the same date.

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.

### Shareholders' Structure

As at 31 December 2015, the total authorized number of ordinary shares of Postbank was 452,752,652 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A., Greece, owns directly 34.56%, another 54.27% through its wholly-owned subsidiary, ERB New Europe Holding B.V., the Netherlands, and 11.16% through its wholly-owned subsidiary, CEH Balkan Holdings Limited, Cyprus. The other 0.01% of the share capital is owned by minority shareholders.

### Risk Division and 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.

### Credit Risk

Credit risk is the risk a counterparty creates by being unable to fulfill 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 Postbank Bulgaria faces. It is rigorously managed and is 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'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, the 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.

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 2015, the process of measuring, monitoring, analyzing, 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 bond portfolio, which consists mainly of Bulgarian sovereign bonds, 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 2015, the Bank 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 was at 31.75% 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 341%. 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 Bank is carried out through the following distinct and, at the same time, interrelated and integrated programmes: Operational Risk Events Capturing, Key Risk Indicators, Risk and Control Self-Assessment, Fraud Risk Management and Operational Risk Scenario Analysis.

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.

In the last two years, specific policies have been implemented, as part of the Operational Risk Framework of Eurobank Group, aimed at fostering a culture of proactive operational risk management in the Bank. Specific counter-fraud and information security trainings have been provided to Bank staff as well, aimed at further raising the risk awareness in these areas.

The operational risk losses registered in 2015 did not bring the operational risk beyond the tolerance level as per the policies and procedures of the Bank.



# INDEPENDENT AUDITORS' REPORT

## TO SHAREHOLDERS OF THE EUROBANK BULGARIA AD

### Report on the Financial Statements

We have audited the accompanying financial statements of Eurobank Bulgaria AD (the "Bank") which comprise the balance sheet as of 31 December 2015 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eurobank Bulgaria AD as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on Other Legal and Regulatory Requirements**



Management is also responsible for preparing the Annual Report in accordance with the Accounting Act.

We are required by the Accounting Act to express an opinion whether the Annual Report is consistent with the annual financial statements of the Bank.

In our opinion, the Annual Report set out on pages 1 to 12, is consistent with the accompanying financial statements of the Bank as of 31 December 2015.

A handwritten signature in black ink, appearing to read 'Milka Damianova'.

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**Milka Damianova**  
Registered Auditor

A handwritten signature in black ink, appearing to read 'Stefan Weiblen'.

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**Stefan Weiblen**  
PricewaterhouseCoopers Audit OOD

25 March 2016  
Sofia, Bulgaria

# ANNUAL DIRECTORS' REPORT

The management presents the annual Directors' report as of 31 December 2015.

## BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) provides 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.

## BUSINESS OVERVIEW

### Development and results from the business activity

The year 2015 was a milestone year for the Bank's results. The strategy of Eurobank Bulgaria was to focus on organic growth, preserving the sources of income and the quality of the assets, control over the expenses, including interest expense, as well as reducing the nonperforming portfolio. In the past years this strategy proved its resilience and in 2015 the results of the Bank are among the best in the system. Although the economy is picking up this is still not felt in the banking system which makes organic growth in lending difficult to achieve. This is why Eurobank Bulgaria saw an opportunity in the acquisition of Alpha Bank's branch in Bulgaria and in November 2015 a preliminary agreement was signed with Alpha Bank S.A. Through this deal Eurobank Bulgaria will improve its positions and will become the fourth largest bank on the market in terms of loans and deposits.

The world economy is expected to grow by 2.4% in 2015, once again lower than the analysts' expectation. The underlying reasons are the declining growth rates in several emerging market economies, decelerating flows to emerging and developing countries, the weak trade and the fall of prices of commodities. Growth in the developing countries is likely to be at its lowest level since the crisis and the modest recovery in some of the high-income countries was not enough to counterbalance this effect. Although, the projections are that the world economy will start to recover in 2016, reaching growth rates of 2.9% in this year and 3.1% in the following two, the underlying risks remain. Further slowdown in the emerging markets economies, the negative trend of the commodity prices and the diverging monetary policies in USA and EU could all contribute for a lower economic recovery and new shocks.

EU economy continues with its modest recovery, led by consumption and improving trade prospects. In 2015 the EU economy grew by 1.9%, up from 1.4% in 2014. An even better trend is observed in the euro area countries – the GDP growth is up from 0.9% in 2014 to 1.6% in 2015. The factors that contributed to the results in 2015 will continue to be present also in the next – the fiscal and monetary policies will continue to support the recovery, while the falling energy prices will provide further boost to households' real incomes and consumption. This justifies the positive projection for 2016 and 2017, at 1.9% and 2.0% respectively, by when the euro area countries are expected to catch up with the rest.

The growth of the Bulgarian economy was 3% in 2015, well above analysts' expectations. The contribution of all GDP components is positive, however, a closer look at the data shows some underlying issues. The external sector is performing well with exports rising by 7.6% and imports by 4.4%, however, the quarterly data shows a slowdown in the exports in the last quarter of the year which could deepen in 2016. The investments were on an upward trend throughout the year and rose by 2.5%, however, higher growth rates are required in case the recovery is to be sustainable in the long run. Positively, the FDIs rose by 23% YoY to €1.57 billion, but remain low as a share of GDP (3.5%). Growth of consumptions stood at 0.7%, which is on the low side given that the consumption is expected to be one of the drivers of growth in Bulgaria.

Deflationary pressures were persistent in 2015 and for a third consecutive year the consumer price index was negative (-0.4%). Once again the main reason were the falling prices of energy and related services, while the prices of food showed a modest increase of half a percentage point. Unemployment rate was 10% at the end of the year, the lowest in the last five years, both due to workplaces generated in the economy and the declining workforces. The falling prices and the higher employment are expected to increase the spending power of the households and support the consumption, however, it seems that the Bulgarian households still prefer to save rather than spend. The gap was filled by the government which increased its expenditures by 7% in 2015 to BGN 34.7 billion. Budget deficit shrank from 3.7% in 2014 to 2.9% in 2015 and is expected to drop to 2% in 2016.

The situation in the Bulgarian banking system remains almost unchanged since last year – demand for loans remains subdued, while there is a constant flow of new liquidity. Deposits increased by close to BGN 5.1 billion, the majority of which came from households – BGN 3.4 billion. Nominal delta of corporate deposits is at record heights, suggesting that the companies are still reluctant to invest and prefer to save their profits. Loans to companies decreased by more than 1 billion leva in the year, however, net of one off effects in the first half of the year and in December, the market was actually flat. A modest growth of loans to households (BGN 20 million) was recorded, but it is still early to say whether this is the beginning of a new trend.

The liquidity inflow into the system urges the banks to compete for new business which is driving down the rates on new lending. Interest income decreased by 8% year-on-year (BGN 314 million), however, this was compensated by the drop in the interest expenses which declined by more than a third (BGN 450 million in nominal terms). As a result, growth of net interest income was positive (+5% YoY), but the banks have to increase their lending as further savings from the cost side will be increasingly difficult to achieve. Net fees and commission income grew by 7% YoY (BGN 62 million), but this can only partially compensate a further squeeze of the net interest margins. Impairment expenses were largely kept at the level of last year – BGN 1.1 billion. Operating expenses were practically flat, net of one off effects, such as the obligatory contributions to the newly created Bank Restructuring Fund paid at the end of the year. Net profit increased by 20% YoY to BGN 898 million, the highest level since 2008.

The capital adequacy and liquidity ratios improved further in 2015. The liquidity ratio increased by more than 6 percentage points to 36%, with the banks holding 27.7 billion leva as liquid funds at the end of the year. The average capital adequacy ratio was at 22.3% as of December 2015, well above the regulatory threshold of 13.5%. Postbank's ratio is even higher – 24.7% which provides a solid buffer against any unexpected shocks.

For another year Eurobank Bulgaria defined the market trends and was able to expand its lending portfolio. Gross loans increased by 2% to BGN 4,407 million. Loans to companies grew by 4% to BGN 2,369 million supporting Eurobank Bulgaria's goals to be one of the leaders in the corporate lending market in Bulgaria. Mortgage loans increased by 2% to BGN 1,331 million, despite the strong competition in the segment.

In the beginning of 2015, Eurobank Bulgaria devised a plan to optimize excess liquidity and reduce cost of funds, improving profitability. The plan was successfully carried out in the first two quarters of the year, resulting in an outflow of about BGN 640 million deposits and decrease of the average interest rates by half during this period. By the end of the year the trend was reversed and in the last quarter, Eurobank Bulgaria's deposits grew by close to BGN 200 million, while the average funding costs continued to fall.

In all, interest expenses in 2015 dropped by more than 50% to BGN 67 million, helping improve the net interest income by 12% to BGN 236 million and total income by 10% to BGN 298 million. Net fee and commission income increased by 1% to BGN 60 million, due to higher income from transfers, account maintenance and increased transactions with cards, in line with the strategy of the Bank to be the main servicing bank of its clients. Net fee income already covers 53% of operating expenses with a solid 7 percentage point improvement compared with 2014.



Costs were reduced by 11% to BGN 112 million, due to the restructuring process which was completed in the beginning of 2015. The cost-income ratio improved by a solid 8 percentage points to 46%, the lowest level since the beginning of the crisis. Throughout the year there was a notable improvement in the formation of loans past due more than 90 days. As a result, provisions for impairment decreased by 46% to BGN 66.6 million, but still the 90 days past due coverage ratio improved by 5 percentage points to the healthy 62%.

All of the above culminated in the highest net profit in the entire history of the bank. Net profit for the year was BGN 84.1 million, ensuring a solid return on shareholders' equity of 10%.

### **Important events that have occurred during the financial year**

Postbank has been among the leaders on the banking market in Bulgaria for 25 years. The bank has been a leading factor in innovation and trend setting in the banking sector in the country in the past years and has been awarded many times for its innovations.

Postbank holds a strategic position in retail and corporate banking in Bulgaria. It is one of the leaders on the market of credit and debit cards, mortgage and consumer lending, saving products and products for corporate clients – from small firms to large international companies, operating in the country. The bank has built one of the best-developed branch networks and modern alternative banking channels.

In 2015, the bank maintained its long-term strategy of being client-centred, innovative institution working with care for the people and the community. It goes beyond the conventional market of bank products, by establishing a new client-centred banking model. The bank had invested in an innovative branch network and 20 new specialized customer service centres in the fields on mortgage lending, personal banking and small business lending were opened by end-2015.

In November 2015, Postbank and Alpha Bank S.A. concluded a definitive agreement on Postbank's acquisition of the operations of Alpha Bank's branch in Bulgaria. After the completion of the deal in 2016, Postbank will be the fourth biggest Bulgarian bank in terms of deposits and loans, with over BGN 6.3 billion assets, a branch network of more than 200 locations across the country and a considerable client base in the retail and wholesale banking segments.

In June 2015, the Bulgarian Credit Rating Agency (BCRA) reaffirmed Postbank's long-term financial rating at BB +, its short-term rating at B with a stable outlook. This is the Bank's fifth credit evaluation by BCRA.

At the beginning of December 2015, Eurobank, the European bank group part of which is Postbank, announced its share capital increase, provided by private and sovereign investors, and by international financial institutions. Institutional and private international investors own over 95% of Eurobank after the successful capital increase.

In 2015, the bank granted new corporate loans totalling almost BGN 500 million to companies in all economic sectors, as the financial institution has set even more ambitious development plans for 2016. The most objective assessment of Postbank's success is still its clients' trust and the numerous awards it received in 2015. The European Bank for Reconstruction and Development gave *The Most Active Issuing Bank* in Bulgaria award for commercial financing to Postbank for a second consecutive year.

The bank is well developing mutual funds distributions, as well, and tripled its sales volume in 2015. The financial institution has considerable achievements in investment banking and received many prestigious international awards for its custody services. For the fifth consecutive year, in April, Postbank was named *Number one custodian bank* on the local market by Global Custodian Magazine and won first place for custody services in Bulgaria in the chart of Global Investor Magazine.

Also in April Postbank received a very valuable recognition by the Bulgarian business sector – a first-place award in the Innovations category of the annual awards for successful business of the Confederation of Employers and Industrialists in Bulgaria. The prestigious award was bestowed to the financial institution

for its innovative approach to banking, for the development of products, new for the Bulgarian market and the set up of modern service channels and web-based services.

In September, Postbank was the only financial institution, representing Bulgaria, which reached the finals of the 9th edition of the international competition of best business practices and high achievements – the European Business Awards.

In August, the financial institution granted a total of BGN 30 million loans to small and medium companies in Bulgaria in line with the partnership agreement under the new programme of the Bulgarian Development Bank for indirect financing of Bulgarian business, named NAPRED. Under the new credit line, Postbank financed companies willing to develop, open new jobs and contribute to Bulgarian economic progress. The loans were designed for operating and investment purposes, project financing of technological renovation and for improvement of the small business competitiveness and potential.

Throughout the year, Postbank organized a number of specialized conferences under the slogan Postbank Meets the Business in support of the business in the country (Vratsa, Montana, Yambol, Haskovo, Pazardzhik, Varna, Burgas, Silistra, Targovishte, Plovdiv, Kardzhali, Kazanlak, Blagoevgrad and Dupnitsa). The meetings' objective was Postbank's experts to present strategic solutions in support of the business and entrepreneurs in the respective regions. In 2015, the financial institution launched its latest initiative Open Doors for the Business – consultations for small and medium enterprises funding with favourable conditions in various cities in Bulgaria (Varna, Burgas, Sofia, Silistra, Targovishte, and many others).

### New products



In 2015, Postbank continued investing in providing innovative solutions for its customers with strong focus on consumer lending offers.

In the course of the year, the bank developed and presented its new smartphone application – MyCard, which was specially developed for Postbank's credit card holders. The modern and interactive application is unique on the market. Using a Google-based map, it shows the shortest route to any branch or ATM of the bank in the country. The app also contains detailed information about any of Postbank's partners in the MyRewards loyalty programme, including available discounts and the outlets' contacts.

### Sustainable development

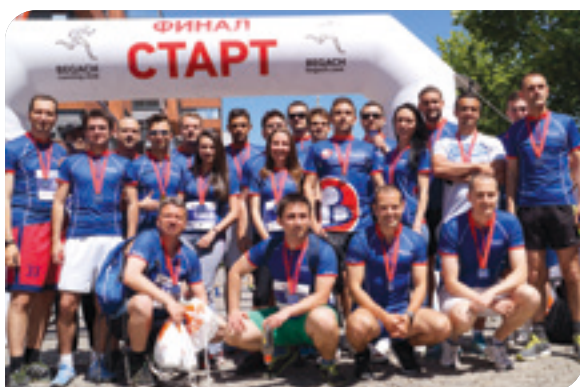
Investments in sustainable development are an essential element in Postbank's operations. In 2015, the financial institution was highly active in corporate social responsibility and implemented a number of socially significant projects in the field of education, environment protection, sport and corporate donations.

Postbank's corporate social responsibility programmes focus on the young people and children in Bulgaria. In 2015, the bank supported UNICEF's



project to develop a network of Maternal and Child Healthcare Centres which will help families provide care for their children. Back at the end of 2013, the financial institution launched its long-term strategic partnership with UNICEF Bulgaria, *Best Start for Every Child* – the biggest and most awarded corporate social responsibility project that has been implemented by a financial institution in Bulgaria. In 2015, *Best Start for Every Child* was the subject of a major communication campaign that made it the most covered CSR project and the most effective donor campaign in the country. In December 2015, the money raised from donations already were BGN 630 thousands.

Under another strategic and long-term partnership – the one with the American University in Bulgaria, Postbank invested in a hall for innovations at the prestigious school. In 2015, the hall was already being actively supported by Postbank and has become a centre for a number of useful initiatives and events.



For a third consecutive year, Postbank became the main partner in the charity relay run *Postbank Business Run*, which is organized each year by running club "Begach". In 2015, over 900 participants from 150 companies operating in various business sectors took part in the contest. The initiative raised over BGN 8 000 that covered the therapeutic activities which St. Sofia Support Centre provides to children with special needs or developmental difficulties.

Postbank invests in the support of developing sports that achieve international success. In July 2015, the financial institution became the main sponsor of the men's national tennis team and supported its preparations for the upcoming Davis Cup games in Luxembourg, thus, proving once again that it combines successfully its business activities with the corporate social responsibility programmes.

In September 2015, Postbank joined the international PARKing Day initiative, organized by Credo Bonum Foundation, for a third consecutive year. Under the *Flying City Dwellers* campaign, the financial institution surprised Sofia residents by transforming the usual parking spot on Tzar Ivan Shishman Street into an improvised art workshop. The event was aimed at drawing the people's attention to protection of birds and their natural habitats.

Postbank is the only bank in Bulgaria that has set up its own Green Board and an Environmental Office unit in its organizational structure that are focused on protecting the environment in terms of reduction of the resources used by the bank and in terms of its financing activities.



In November 2015, Postbank carried out national representative survey of the financial literacy level



in the country. It marked the beginning of a new corporate social responsibility campaign *Finance by Notes*. The ambition of the Postbank's team is the new campaign, *Finance by Notes*, to build upon the bank's achievements in the field of education by implementing new technologies and using digital communication channels.

Throughout the year, the bank continued its long-standing support and work with socially disadvantaged groups and encouraged their active role in the society.

### Awards

Postbank is among the most frequently awarded companies in Bulgaria. In 2015, the bank received a total of 21 prestigious awards in various fields, given by independent and highly respected Bulgarian and international institutions:

- 26 February 2015, Postbank was named *Investor in Society* for its strategic partnership with UNICEF Bulgaria called *Best Start for Every Child* at the *Annual Awards for Responsible Business* organized by the *Bulgarian Forum of Business Leaders*;
- 15 April 2015, *Global Custodian* Magazine named Postbank *The Best Custodian Bank* in Bulgaria;
- 15 April 2015, *Global Investor* Magazine, a leading magazine published by *Euromoney* which focuses on trends in asset management and investment banking, named Postbank the *Number one Sub-custodian* in Bulgaria;
- 29 April 2015, *Best Start for Every Child* received a second-place award by the *Bulgarian Association of PR Agencies* in the category for *Sustainable Development*;
- 29 April 2015, Postbank received an exceptionally valued recognition by Bulgarian business - a *first-place Award in the Innovations category* in the *Annual awards for successful business* of the *Confederation of Employers and Industrialists in Bulgaria*;
- 18 May 2015, for a second consecutive year Postbank was named *The Most Active Issuing Bank* in Bulgaria by the *European Bank for Reconstruction and Development* under a 2014 commercial financing programme;
- 20 May 2015, *Best Start for Every Child* was awarded in the *Sustainable Development Campaign – Business category, PR Prize 2015*, second place;
- 20 May 2015, *Take Now, Pay Back in Installments* was awarded in the *Product or Service Campaign* category – *PR Prize 2015*, third place;
- 20 May 2015, Postbank received a *special award for sustainable development* for the green initiative *For the Bicycles and Their People* by *Manager Magazine – PR Prize 2015*;
- 26 May 2015, Postbank won first place in the *BG Green Awards 2015* competition, *Big Companies* category. Organizers – *b2b Magazine* and *Go Bio Magazine*;
- 27 May 2015, *EFFIE award* for *The Saving Mortgage Loan* advertising campaign – third place in the *Services* category in the marketing efficiency competition, *EFFIE Bulgaria 2015*;
- 28 May 2015, first place in the *Financial, Banking, Accounting and Legal Services* category at the 5th annual *b2b Media* competition, *The Greenest Companies in Bulgaria 2014*;
- 16 June 2015, *The Best Marketing Team* award in the *Product Re-launch* category in the annual competition for marketing communications' achievements, *BAAwards 2015, Bulgarian Association of Advertisers*;
- 1 September 2015, Postbank is the only financial institution from Bulgaria that reached the finals of the 9th edition of the *International Competition for Best Practices and High Achievements in the business sector, European Business Awards*;
- 5 November 2015, Postbank received the *Mystery Shopper* prize in the *Bank of the Year 2014* competition, organized by *Association Bank of the Year*;



- 8 November 2015, the *Best Start for Every Child* campaign was awarded in the *Healthcare Initiatives* category at the *Golden Heart Annual Charity and Corporate Social Responsibility Awards* organized by *Business Lady Magazine*;
- 20 November 2015, *Best Start for Every Child* received an award in the *Most Sustainable Donor's Programme* category at the *tenth annual awards* organized by the *Bulgarian Donors Forum*, given in the presence of the President of the Republic of Bulgaria;
- 22 November 2015, *Investor in Public Communication* – an award within the *Day of Bernays 2015* event, organized by the *Bulgarian Public Relations Society*, given to Postbank for its contribution to the development of public communication in Bulgaria and the implementation of good practices;
- 30 November 2015, Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board, received the prestigious *Mrs. Ikonomika (Mrs. Economy)* award in the *Mr. and Mrs. Ikonomika* competition 2015, organized by *Ikonomika Magazine* and the *Confederation of Employers and Industrialists in Bulgaria*;
- 1 December 2015, Petia Dimitrova was named *Banker of the Year 2015* at the 22nd annual awards organized by *Banker Weekly*;
- 8 December 2015, Doncho Donev, Head of Capital Markets Division at Postbank was named *Young Banker of the Year 2015* in the *New Generation: Bankers awards*, organized by *Standard Daily*.

### SHARE CAPITAL STRUCTURE

As at 31 December 2015 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 452,752,652 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 34.56%, another 54.27% of the share capital is owned by ERB New Europe Holding B.V., 11.16% by CEH Balkan Holdings Limited and 0.01% by minority shareholders.

### MANAGEMENT BOARD

As at 31 of December, 2015 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;
- Iordan Souvandjiev – Chief Risk Officer and Member of the Management Board.

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

In 2015 the members of the Management Board did not receive remunerations from the Bank in their capacity of Management Board members.

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

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

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

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

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

##### **4.1. Partners with unlimited liability**

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

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

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

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

- **Petia Dimitrova**

American Chamber of Commerce in Bulgaria, Bulgaria – Member of the Board of Directors (until 8 December, 2015);

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

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

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

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

- **Dimitar Shoumarov**

IMO Rila EAD, Bulgaria – Member of the Board of Directors;

IMO Central Office EAD, Bulgaria – Member of the Board of Directors (until 03.09.2015);

IMO 03 EAD, Bulgaria – Executive Director and Member of the Board of Directors;

ERB Leasing EAD, Bulgaria – Chairman of the Board of Directors;

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;

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 has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2015.**

## SUPERVISORY BOARD

As at 31 December 2015 the Supervisory Board consisted of the following members:

- Theodoros Karakasis – Chairman of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- Christina Theofilidi – Member of the Supervisory Board.

Mr. Antonios Hassiotis and Mr. Nikolaos Aliprantis were members of the Supervisory board until 16.10.2015. Mr. Stavros Ioannou and Mr. Michalis Louis were officially appointed as members of the Supervisory Board on 16.10.2015.

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

In 2015 one member of the Supervisory Board received a remuneration from the Bank in his capacity of Supervisory Board member ( it has been disclosed in Note 29).

### 2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2015

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

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

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

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

#### 4.1. Partners with unlimited liability

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

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

Mr. Antonios Hassiotis is a Sole Shareholder of Investments AMK EOOD, Bulgaria, he has been a member of the Supervisory Board of the Bank up to 16.10.2015. None of the present members of the Supervisory Board has been a partner or shareholder holding more than 25 per cent of the capital of another company.

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

#### • 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 AD, Bulgaria – Chairman of the Board of Directors;  
 Bulgarian Retail Services AD, Bulgaria – Chairman of the Board of Directors;

CEH Balkan Holdings Limited – 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 (effective as of 28.4.2015), - Group Chief Operating Officer & International Activities, Member of the Executive Board, Member of the Strategic Planning Committee (effective as of 20.2.2015);

Eurobank Ergasias S.A., Greece – Senior General Manager (until 28.4.2015), Member of the Management Committee (until 1.9.2015, at which date the Management Committee ceased to exist);

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 (from 20.2.2015 until 27.3.2015, Mr. Ioannou was Vice Chairman of the Board of Directors.);

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;

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

Eurobank Cyprus Ltd, Cyprus – Member of the Board of Directors (effective as of 19.11.2015);

Cardlink S.A., Greece – Deputy Chairman of the Board of Directors (until 23.1.2015).

- **Michalis Louis**

Eurobank Ergasias S.A., Greece - Head of International Activities General Division, Member of the Executive Board (as of 20.2.2015);

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.

- **Anastasios Nikolaou**

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

PJSC «Universal Bank», Ukraine – Member of the Supervisory Board.

- **Christina Theofilidi**

Eurobank Ergasias S.A., Greece – General Manager Retail Remedial , Member of the Executive Board (as of 20.2.2015) and Member of the Management Committee (until 1.9.2015, at which date the Management Committee ceased to exist);

Eurobank Financial Planning Services S.A., Greece – Deputy Chairman of the Board of Directors;



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

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

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

- **Antonios Hassiotis**

Investments AMK EOOD – Sole Shareholder and Manager.

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

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2015.

## **GROUP STRUCTURE**

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2015 and therefore no consolidated financial statements are prepared at this entity level.

## **OBJECTIVES FOR 2016**

In 2016 the main objectives of the Bank will remain unchanged - to maintain its leading position in the market and to build a long-term relationship with the clients, based on mutual trust. Further decrease of the cost of funds will allow the Bank to sustain interest margins in the increasingly competitive environment, maintaining a prudent risk appetite.

The seamless integration of the acquired ongoing concern of Alpha Bank S.A. in Bulgaria and the successful completion of the comprehensive assessment of the Bulgarian bank will be key priorities in this year. The integration of Alpha Bank Bulgaria is to be completed by the middle of 2016, ensuring a minimal disruption of sale capabilities and customer service in both networks. The anticipated successful completion of the comprehensive quality assessment will show how the banks have overcome the effects from the crisis and will increase the trust in the banking system as a whole and Eurobank Bulgaria in particular.

With the economic prospects of the country improving, there is an opportunity to expand the interest earning assets and especially the lending portfolio, further improving the profitability of the bank. This is becoming even more important after the introduction of negative interest rates on the excess reserves by BNB in the beginning of this year.

Lending to healthy large and medium-sized corporate clients will help utilize fast part of the excess liquidity, while the retail segment is expected to deliver another year with double-digit growth of new sales. Increasing the number of current accounts, attracting new clients and deepening the relationship with the existing ones will play a major role for increasing the fees and commissions income to offset any decrease in the lending margins.

The training of the employees will be expanded in order to increase their qualification, efficiency and motivation. The alternative sales and service channels will be further developed. The capabilities of the online banking will be expanded and a mobile banking application will be launched in the beginning of 2016.

The long-term strategy of the Bank remains unchanged - to be the bank of first choice for its customers. Gaining the trust of the clients 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 expectations of the customers thus creating value for them and the shareholders.

## MANAGEMENT RESPONSIBILITIES

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

The Directors confirm that suitable accounting policies have been used.

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

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



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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

22 March 2016  
Sofia, Bulgaria

## FINANCIAL STATEMENTS

## INCOME STATEMENT

		Year ended 31 December	
	Notes	2015	2014
Interest and similar income	1	303,716	353,933
Interest and similar charges	1	(67,357)	(142,650)
<b>Net interest income</b>		<b>236,359</b>	<b>211,283</b>
Fee and commission income	2	72,788	73,953
Fee and commission expense	2	(12,648)	(14,214)
<b>Net fee and commission income</b>		<b>60,140</b>	<b>59,739</b>
Dividend income		407	619
Other operating income	3	445	234
Net trading income	4	31	579
Gains less losses from trading securities	12	(112)	513
Gains less losses and impairment of securities available for sale	14	647	(1,215)
Repossession collateral impairment	V.1.6.	(334)	(568)
Other operating expenses	5	(112,384)	(126,456)
Deposit Insurance Fund expense		(25,063)	(20,974)
Impairment charge for credit losses	7	(66,601)	(122,981)
<b>Profit before income tax</b>		<b>93,535</b>	<b>773</b>
Income tax expense	8	(9,435)	(96)
<b>Profit for the year</b>		<b>84,100</b>	<b>677</b>

The Financial statements were authorized by the management on 22 March 2016.



**Petia Dimitrova**

Chairperson of the Management Board and Chief Executive Officer



**Dimitar Shoumarov**

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

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



**Milka Damianova**

Registered Auditor

25 March 2016



**Stefan Weiblen**

PricewaterhouseCoopers Audit OOD

## STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Notes	2015	2014
Profit for the year		84,100	677
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		<b>13,093</b>	<b>(4,468)</b>
<b>Available for Sale Securities</b>			
-net changes in fair value, net of tax	9	13,317	476
-transfer of (profit) to net profit on sale	9	(224)	(4,944)
<i>Items that will not be reclassified to profit or loss:</i>		<b>(507)</b>	<b>171</b>
Impairment of property, plant and equipment, net of tax		(426)	-
Remeasurements of post-employment benefit obligations, net of tax		(81)	171
<b>Other comprehensive (loss)/income for the year</b>	<b>9</b>	<b>12,586</b>	<b>(4,297)</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>96,686</b>	<b>(3,620)</b>

The Financial statements were authorized by the management on 22 March 2016.



**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



**Stefan Weiblen**

PricewaterhouseCoopers Audit OOD

25 March 2016



## BALANCE SHEET

As at 31 December

	Notes	2015	2014
<b>Assets</b>			
Cash and balances with the Central Bank	10	1,087,898	526,711
Loans and advances to banks	11	109,616	1,487,226
Financial assets held for trading	12	11,376	58,794
Loans and advances to customers	13	3,895,818	3,833,994
Investment securities	14	550,440	130,514
Derivative financial instruments	20	2,444	2,365
Investment property	15	843	876
Property, plant and equipment	16	40,104	43,140
Intangible assets	17	34,548	35,009
Current income tax recoverable	-	-	485
Other assets	18	19,575	19,231
<b>Total assets</b>		<b>5,752,662</b>	<b>6,138,345</b>
<b>Liabilities</b>			
Deposits from banks	19	19,854	18,860
Derivative financial instruments	20	3,289	4,557
Due to clients	21	4,604,805	5,077,273
Debt issued and other borrowed funds	22	160,944	180,330
Deferred income tax liabilities	23	2,710	2,344
Current income tax payable		1,081	-
Provisions for other liabilities and charges	24	5,220	5,460
Retirement benefit and other obligations	25	4,064	6,114
Other liabilities	26	36,511	25,909
<b>Total liabilities</b>		<b>4,838,478</b>	<b>5,320,847</b>
<b>Shareholders' equity</b>			
Share capital	27	452,753	452,753
Statutory reserves		282,521	282,521
Retained earnings and other reserves, net		178,910	82,224
<b>Total shareholders' equity</b>		<b>914,184</b>	<b>817,498</b>
<b>Total shareholders' equity and liabilities</b>		<b>5,752,662</b>	<b>6,138,345</b>

The Financial statements were authorized by the management on 22 March 2016.



**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  
25 March 2016



**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 2014</b>	<b>452,753</b>	<b>2,231</b>	<b>4 501</b>	<b>282,521</b>	<b>79,112</b>	<b>821,118</b>
Net gain recognized directly in OCI	-	-	(4,468)	-	-	(4,468)
Remeasurement on post-employment benefit obligations	-	-	-	-	171	171
Profit for the year	-	-	-	-	677	677
<b>Total comprehensive income for the year 2014</b>	<b>-</b>	<b>-</b>	<b>(4,468)</b>	<b>-</b>	<b>848</b>	<b>(3,620)</b>
Transfer to retained earnings	-	-	-	-	-	-
<b>Balance at 31 December 2014</b>	<b>452,753</b>	<b>2,231</b>	<b>33</b>	<b>282,521</b>	<b>79,960</b>	<b>817,498</b>

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve	Statutory reserves	Retained earnings and other reserves	Total
<b>Balance at 1 January 2015</b>	<b>452,753</b>	<b>2,231</b>	<b>33</b>	<b>282,521</b>	<b>79,960</b>	<b>817,498</b>
<b>Net gain recognized directly in OCI</b>	<b>-</b>	<b>-</b>	<b>13,093</b>	<b>-</b>	<b>-</b>	<b>13,093</b>
Impairment of property, plant and equipment	-	(426)	-	-	-	(426)
Remeasurement on post-employment benefit obligations	-	-	-	-	(81)	(81)
Profit for the year	-	-	-	-	84,100	84,100
<b>Total comprehensive income for the year 2015</b>	<b>-</b>	<b>(426)</b>	<b>13,093</b>	<b>-</b>	<b>84,019</b>	<b>96,686</b>
Transfer to retained earnings	-	(7)	-	-	7	-
<b>Balance at 31 December 2015</b>	<b>452,753</b>	<b>1,798</b>	<b>13,126</b>	<b>282,521</b>	<b>163,986</b>	<b>914,184</b>

The Financial statements were authorized by the management on 22 March 2016.



**Petia Dimitrova**

Chairperson of the Management Board and Chief Executive Officer



**Dimitar Shoumarov**

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



**Milka Damianova**

Registered Auditor



**Stefan Weiblen**

PricewaterhouseCoopers Audit OOD

25 March 2016

## STATEMENT OF CASH FLOWS

Year ended 31 December

2015

2014

**Cash Flow from Operating Activities**

Interest received	312,424	362,743
Interest paid	(88,774)	(163,223)
Dividends received	407	619
Fees and commissions received	72,402	74,208
Fees and commissions paid	(11,725)	(13,345)
Amounts paid to and on behalf of employees	(53,668)	(57,983)
Net trading and other income received	2 910	1,108
Other operating expenses paid	(76,047)	(66,887)
Tax paid	(9,388)	(1,530)
<b>Cash from operating activities before changes in operating assets and liabilities</b>	<b>148,541</b>	<b>135,710</b>

**Changes in Operating Assets and Liabilities**

Net decrease/(increase) in reserve with the Central Bank	15,787	(25,817)
Net decrease/(increase) in trading securities	47,247	(41,740)
Net (increase) in loans and advances to customers	(136,721)	(86,207)
Net (increase) in other assets	(907)	(1,179)
Net (decrease) in derivatives instruments	(389)	(84)
Net increase/(decrease) in due to other banks	1,026	(49,983)
Net (decrease)/increase in amounts due to custom	(448,890)	575,684
Net increase in other liabilities	12,754	878
<b>Net cash flow (used in)/from operating activities</b>	<b>(361,552)</b>	<b>507,262</b>

**Cash Flow From Investing Activities**

Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(8,824)	(10,273)
Purchase of investment securities (Note 14)	(663,639)	(43,784)
Proceeds from disposal of property and equipment	41	2
Proceeds from disposal of investment securities (Note 14)	252,656	47,965
<b>Net cash flow used in investing activities</b>	<b>(419,766)</b>	<b>(6,090)</b>

**Cash Flow from Financing Activities**

Long-term financing received	20,000	44,703
Long-term debt repaid	(39,327)	(104,615)
<b>Net cash used in financing activities</b>	<b>(19,327)</b>	<b>(59,912)</b>
Effect of exchange rate changes on cash and cash equivalents	8	54
<b>Net change in cash and cash equivalents</b>	<b>(800,637)</b>	<b>441,314</b>
Cash and cash equivalents at beginning of year	1,795,241	1,353,927
<b>Cash and cash equivalents at end of year (Note 28)</b>	<b>994,604</b>	<b>1,795,241</b>

The Financial statements were authorized by the management on 22 March 2016.



**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

25 March 2016



**Stefan Weiblen**

PricewaterhouseCoopers Audit OOD





# CONTRIBUTION TO SUSTAINABILITY

Every day is a new  
step towards  
your goals

## LETTER TO STAKEHOLDERS



### **Dear Interested Parties,**

In this letter, part of Postbank Annual Report 2015, we would like to share with you our satisfaction with the achieved wider effect of our activity in economic, environmental and social terms.

2015 was a very dynamic, challenging and, at the same time, positive and fruitful year for us. The confidence in the banking system remained high which was proven by the continuous increase in people's savings and companies' assets. In general, almost all indicators of the banking system were positive – assets and deposits increased, interest costs went down, having a positive effect on revenues and profits.

Postbank's net profit amounted to a BGN 84.1 million, the largest in its recent history, while its assets reached BGN 5.75 billion as at 31 December 2015. The good financial results had a positive effect on its contribution to Bulgaria's economy and the community as a whole.

We achieved and maintained the Bank's leadership position in all banking segments, becoming an established brand in household lending and, we can boldly say, an established partner of Bulgarian business.

### **Sustainable Benefits for Our Clients and Partners**

Banking is a constant challenge – we can neither rush ahead, nor lag behind. We have changed our approach and switched from selling standard bank products to offering an adequately selected mix of personal consultant services, modern and flexible financial solutions and high-quality banking, adjusted to our clients' concrete needs. In 2015, we introduced numerous innovative products and developed the Bank's alternative banking channels, constantly striving to focus on new trends and what is useful to our clients.

We are ready to invest in our clients' new projects, thus meeting the high expectations of Postbank and working together with our clients. We attach importance to every individual client and company, because we clearly understand that every economic entity and region of the country is essential for Bulgaria's economic development. The core principle of our work is providing real partnership, because we believe our clients deserve equal attitude by a stable financial partner.

### Sustainable Care for Employees

Postbank's team has always been and will be the most valuable resource. Employees are the people, who manage to maintain the high confidence in the Bank, to strengthen its leadership position on the Bulgarian market and to strive to achieve better results in an environment of numerous rivals. The good practices and trends we have introduced, all achievements and awards we have received would have been impossible without our employees and colleagues. We maintain constant and bilateral communication with them, developing mutual trust and contributing to the set-up of an integrated corporate culture, appreciating personal contribution, efforts and knowledge. In 2015, we showed once again that we are a strong and united team which faces challenges as one. The timely and efficient information flow is maintained through *Our Bank* internal e-bulletin *The Bank Stories* newspaper, distributed through the Bank's branches across the country, and the internal online platform, which incorporates all necessary labour procedures and documents.

### Sustainable Environment and Social Development

Postbank and its employees work very actively in the field of corporate social responsibility and volunteer initiatives. Together we carry out socially-significant projects in the spheres of education, child care, environment protection, sports and many others. Sticking to the commitment to achieve sustainable growth, in 2015, we continued implementing our campaigns with a sensitive approach and responsibility for people, and care for nature and the community. The joint project of Postbank and UNICEF Bulgaria, *Best Start for Every Child*, was distinguished with numerous recognitions, including *The Most Sustainable Donation Programme* award of the Bulgarian Donors Forum. The funds raised through donations amounted to BGN 630,000 as at December 2015 and two Maternal and Child Health centres were opened in the country, in Shumen and Sliven. These results encourage us to continue working with ambition, devotedness and desire as we have until now.

We started implementing a large-scale financial literacy campaign, called *Finance by Notes*. We continued our annual initiative for providing charity support to the relay run, *Postbank Business Run*, and the internal programme, *Green Start with Postbank*, entirely carried out by the Bank's volunteers. We participated for a consecutive year in the international initiative, *PARKing Day*, and realized numerous smaller-scale campaigns.

On the following pages you can read more about all components of Postbank's contribution to sustainable development, as well as efficient corporate management, economic contribution, responsible behaviour, way of guaranteeing service quality and contribution to the development of the community.

**Sincerely,**



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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



## GUIDING PRINCIPLES AND BELIEFS

### 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.

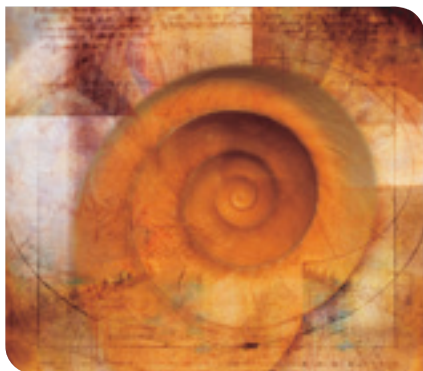


##### RESPECT

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



## CONTRIBUTION TO SUSTAINABILITY



### **QUALITY**

We aim at excellence in everything we do.



### **TEAMWORK**

Success comes easier when we work as a team.



### **TRUST**

When it exists, we achieve the impossible.



### **SOCIAL CONTRIBUTION**

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



### **EFFECTIVENESS**

We always strive to accomplish the goals we set.



### **CREATIVITY**

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

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

Eurobank Group, to which Postbank belongs, 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 Group 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 2015, Eurobank preferred to work with local suppliers in selected categories of goods and services.

Postbank strictly abides by the Group's policies. The Bank supports Bulgarian business by using local suppliers of products and services necessary for the organization's business. The Bank works with a large network of local partners, representing around 90% of all its suppliers.

## CREATED DIRECT ECONOMIC VALUE

## SOCIAL PRODUCT

THE CONTRIBUTION OF THE BANK TO THE SOCIAL PRODUCT	2015		2014		2013	
	BGN'000	EUR'000	BGN'000	EUR'000	BGN'000	EUR'000
Turnover	376,941	192,727	429,263	219,479	441,069	225,515
Interest Expense and Fees & Commissions expense	-80,005	-40,906	-156,864	-80,203	-191,757	-98,044
VAT on Added Value of the Bank	-2,814	-1,439	-2,691	-1,376	-2,232	-1,141
Impairment losses	-66,601	-34,052	-122,981	-62,879	-80,885	-41,356

<b>Social Product</b>	227,521	116,330	146,727	75,020	166,195	84,974
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## THE SOCIAL PRODUCT AND ITS DISTRIBUTION

<b>I. Personnel</b>	46,536	23,793	55,233	28,240	54,033	27,626
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Gross pay	58,441	29,880	67,519	34,522	66,911	34,211
Employer contribution to social security institutions	2,434	1,245	3,120	1,595	3,199	1,635
Medical, Retirement and other benefits	1,072	548	506	259	547	280
Contribution to Social Security Institutions (Employer and Employees)	-11,587	-5,924	-11,687	-5,975	-12,297	-6,288
Employees tax	-3,825	-1,955	-4,225	-2,160	-4,327	-2,212

<b>II. Suppliers of Goods and Services</b>	44,106	22,551	50,856	26,002	52,415	26,799
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<b>III. Donations and sponsorships</b>	55	28	54	28	9	4
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<b>IV. State</b>	52,724	26,957	39,906	20,403	41,245	21,088
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Income Tax and various taxes	9,435	4,824	328	168	2,371	1,212
Value added taxes	2,814	1,439	2,691	1,376	2,232	1,141
Deposit Guarantee and Investors compensation schemes	25,063	12,815	20,974	10,724	20,018	10,235
Contribution to Social Security Institutions (Employer and Employees)	11,587	5,924	11,687	5,975	12,297	6,288
Employees tax	3,825	1,955	4,225	2,160	4,327	2,212

<b>V. Company</b>	84,100	43,000	677	346	18,493	9,455
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Retained Earnings / Reserve	84,100	43,000	677	346	18,493	9,455
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<b>Social Product</b>	227,521	116,330	146,727	75,020	166,195	84,974
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## IMPROVING PRODUCT AND SERVICE QUALITY

### CLIENT SATISFACTION



In 2015, Client Relations management reapproved its targets:

- The number of received complaints in 2015 to decrease by over 1.5%, compared to 2014;
- Over 85% of the signals to be answered within 5 days.

Beside the regular Mystery Shopper survey aimed at comparing Postbank to other commercial banks operating on the market, a dedicated Mystery Shopper survey took place specifically targeting services in Postbank's branches.

The surveys proved the Bank's standards for client services and further helped set strategies for Postbank's becoming the bank of first choice of the clients.

The Client Relations team will continue its efforts in providing excellent client services in 2016.

In 2015 a dedicated Client Service and Lean Management Department was created in line with Postbank's key objective – to provide excellent service and to be the main servicing bank of the consumers. Through fine-tuning of the existing instruments the Department managed to bring a much needed clarity in the area of service quality and determined a lot of benefits both for the clients and the branch network of the Bank.

Moreover, the Department has reaffirmed its commitment to pursue the Bank's goal of becoming a lean institution and has undertaken the implementation of several high priority projects that will bring optimization across the Bank in 2016, as well as for specific processes. Relying on specific tools for analysis, measurement and control, the team is approaching the projects from the perspective of continuous improvement.



# RESPONSIBLE CONDUCT AND PRODUCT LIABILITY

## RESPONSIBLE CONDUCT AND PRODUCT LIABILITY

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

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

### COMPLIANCE

#### Prevention of Money Laundering and Terrorism Financing

To avoid the involvement in any money laundering or terrorism financing activities and operations, Postbanks 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. Undoubtedly, the January and November 2015 Paris terrorist attacks strongly emphasized the importance of the measures applied by the Bank to prevent the use of the financial system for the purposes of terrorist financing. In addition, the Syrian crisis-related refugee wave and the illegal immigration to the EU pose a threat to 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 2015, one of the major challenges for the Bank continued being the adherence to the Ukraine-related 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.

In 2015, the Commission for Personal Data Protection reviewed several complaints against Postbank, but none of them has been found justified.

#### 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 Bank 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 completely guaranteed by the fact that it is subject to audits by a number of state authorities. In 2015, the Bulgarian National Bank, the Financial Supervision Commission and the Financial Intelligence Directorate with the State Agency for National Security carried out audits in line with their schedules. The audits scrutinized each and every obligation of Postbank as prescribed by the related legal framework. The supervisory authorities issued only recommendations and particular questions to the attention of the Bank's management. No breaches were found and no administrative penalties were imposed.

### **Advertising and Promotion**

Postbank's transparent, responsible and open conduct is a key element of all marketing and advertising activities. Being a universal commercial bank working with clients, companies, and institutions, the Bank adheres to clear and honest communication with all stakeholders regarding its product offers and promotions.

The Bank is a member of the Bulgarian Association of Advertisers (BAA). Among the organization's objectives are: self-regulation of the messages to consumers, active participation in all processes and projects related to the application of European and global practices in the field of advertising and maintaining an efficient and useful dialogue with the media in order to conduct responsible, honest and transparent advertising policy. BAA provides its members with information about legal, regulatory and production issues, sharing best practices and novelties in technology, and advertising communication trends. Postbank actively supports also the efforts of the Bulgarian Public Relations Society to protect the ethical rules in this profession and to be a tribune of the best practices in the communications field in Bulgaria.

In its marketing communications, the Bank complies with the Law on Consumer Protection, the Law on Competition Protection, the Law on Credit Institutions, the Law on Banking and the Law on Consumer Loans, which regulate the communication of bank products. A distinctive feature of Postbank's

advertisements is that they contain very explanatory information for consumers. According to the Bank's internal procedures, any advertising communication of any product must be coordinated with the Legal Department. Postbank had no fines imposed for breach of regulations and voluntary codes of marketing communications in 2015.

In 2015, the Corporate Communications and Marketing Division aimed its efforts at finding non-traditional approaches, interesting ideas and attractively-presented communications content for customers. The team invested efforts into comprehensive integrated campaigns aimed not at short-term effect, but at promoting Postbank's position and image as a whole. The Bank's creative campaigns and events brought real benefits to customers. Postbank's advertising communication was extremely effective, integrating its key business objectives and achieving high return of investment.

**In 2015 the financial institution received a number of awards for advertising effectiveness:**

### 2015

In April, *Best Start for Every Child* received a second-place award by the *Bulgarian Association of PR Agencies* in the *Sustainable Development* category.

In May, *Best Start for Every Child* was awarded in the *Sustainable Development Campaign* in the *Business* category in the *PR Prize 2015* contest. *Take Now, Pay Back in Installments* won in the *Product or Service Campaign* category and Postbank received a special sustainable development award for the green initiative, *For the Bicycles and Their People*, by *Manager* magazine.

Postbank was awarded for the advertising campaign of *Saving Mortgage Loan*, winning third place in the *Services* category of the marketing effectiveness competition, *EFFIE Bulgaria 2015*.

In June, Postbank received the *Best Marketing Team* award in the *Product Re-launch* category of the annual competition for marketing communications' achievements, *BAAwards 2015*, organized by the *Bulgarian Association of Advertisers*.

Postbank was named an *Investor in Public Communication* – an award within the *Day of Bernays 2015* event, organized by the *Bulgarian Public Relations Society*, given for the contribution to the development of public communication in Bulgaria and the implementation of good practices.

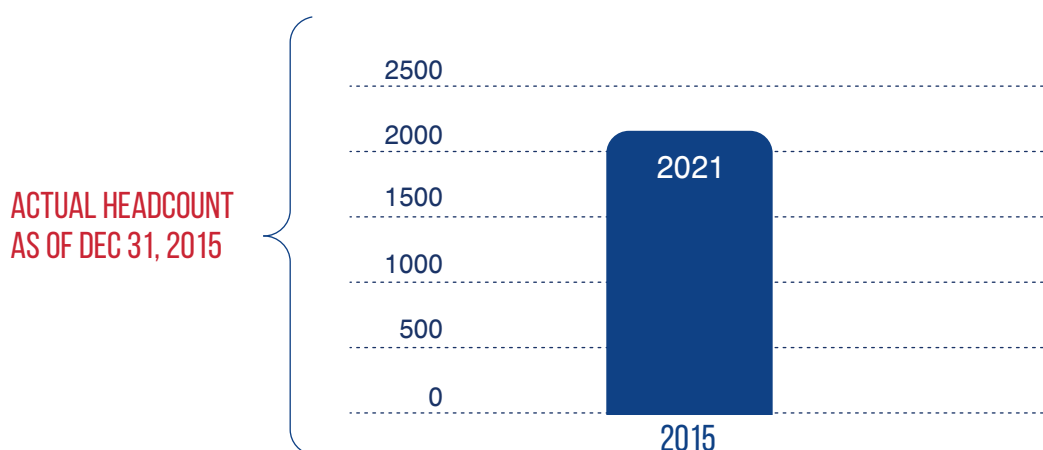
## DEVELOPING HUMAN CAPITAL

### 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.

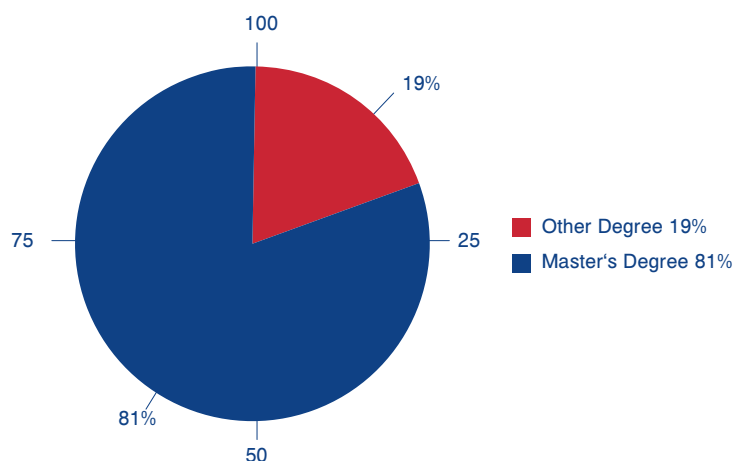
Since the requirements for appointment at different positions at the Bank are related to both high level of professional knowledge and proven moral and ethical values, the Bank aims at developing its internal contributors – people with undeniable qualities. This is why, more than half of the Bank's openings (53%) are taken by personnel coming from the so-called internal market, i.e. by promoted and reappointed employees.

47% of 2015 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 2015 81% of the newly-appointed employees in the Bank had a master's degree.

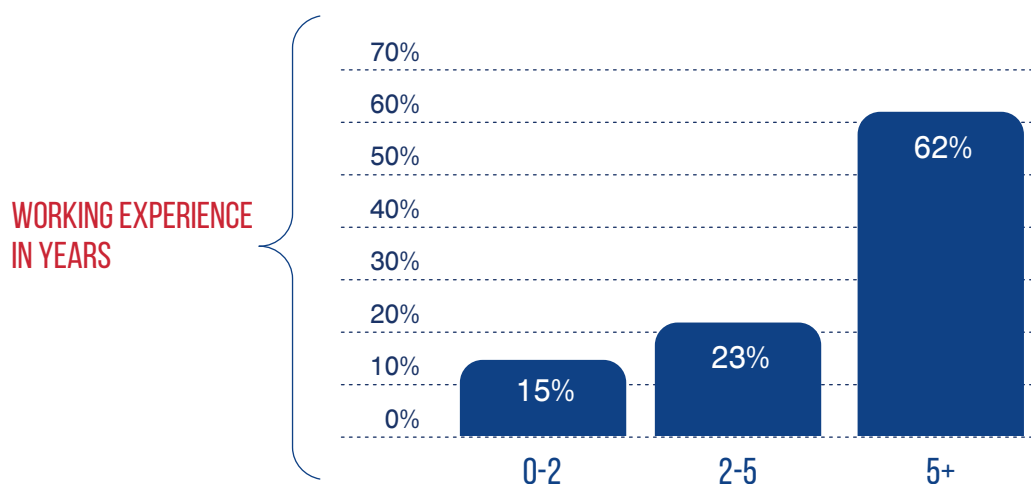


## CONTRIBUTION TO SUSTAINABILITY



High recruitment criteria are illustrated also by the fact that in 2015 62% from the newly-appointed employees had more than five years of professional experience.

Postbank gave career opportunity to well-educated and motivated Bulgarian professionals. Only two of them were expatriates.



### Professional Training

The Bank lays emphasis on providing additional training to its employees, as well as opportunities for skill improvement as one of the most powerful tools for 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 2015, 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.

The total training man-hours in 2015 amounted to 31,410 and the total number of participants in the training sessions – to 6,523. There were 203 training programmes in 2015 and a constant effort, to improve their content and design.

In 2015, 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 2015, 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**

A close connection between theory and practice was fully realized as a result of establishment of a new and innovative branch network. The Mortgage Lending and the Small Business Banking divisions focused not only on business, but also on training programmes. Apart from theoretical training, all new employees passed through structured on-the-job training in the respective segment, in order to receive solid and practice-oriented professional preparation.

During on-the-job programmes newly-recruited people were supervised by experienced mentors who shared with them the best and proven work approaches. This way, new employees were able to start working quickly and effectively.

### **Golden Standard for Customer Service**

The Bank implemented a couple of new initiatives as part of its commitment to the continuous improvement of customer service. Golden rules for customer service, as well as a customer service policy, continued being an integral part of induction programmes. The general knowledge level of customer service employees was measured by conducting an on-line test for all employees engaged in the front office.

The high average test score of over 90% was the result of the Bank's systematic efforts in customer service improvement. Looking for innovative and more engaging forms to motivate its employees and retain the current level, the Bank started implementing new multi-modules, online platform for customer service training in 2015.

### **European Agricultural Funding Programmes**

The Bank initiated a new training initiative focused on all employees working in the Small Business Banking segment aimed at improving their knowledge of European programmes for funding of farmers.

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 Bank's employees into customer consultants of its clients.

### Scoring of Professional Preparation

A model for regular and standardized measurement of employees' professional preparation in terms of systems, products and actual campaigns was developed.

In the Individual Banking segment, a very dynamically developing area where the largest number of employees are engaged, an online test measuring the level of professional knowledge was carried out every quarter. The test results were used to identify the areas in need of knowledge improvement.

### Long-term Qualifications

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

### Harvard Business School

In 2015, for the seventh consecutive year, Postbank provided its middle- and top level Management with the opportunity to enroll in the distance programme, Business Essentials, and be part of Harvard Business School training – the world's most prestigious business school.

The main feature of the programme is its focus on practice, realized in case-based training. In 2015, Postbank's employees enrolled in two programmes: Stepping up to Management, designed for new managers, and Harvard Manage Mentor, designed for middle- and top managers. In 2015, the Harvard Manage Mentor programme was carried out at the Bank for the first time and 30 top managers took part in it. The total number of participants in the programme was 52.

### 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.

In 2015, all employees were assessed and received complete appraisal related to their performance and career prospects. An updated performance development system, implemented in 2011, guaranteed the efficacy and effectiveness of the whole process. The system guides employees to the business spheres where their skills and potential will be of the highest value and, at the same time, encourages them to achieve their professional goals.

### Compensation and Social Benefits

Postbank is aware of the social impact of its position as a major employer and is determined to provide its staff with various benefits which go far beyond the requirements, stipulated in Bulgaria's labour legislation. 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 of the Bank have an additional health insurance in a private fund the price of which is fully covered by the employer. The additional insurance

covers also the cost of medical treatment if necessary. Employees can also conclude agreements for additional insurance of family members at preferential terms if they wish so. The Bank provides its staff with an additional life insurance, covering the expenses upon occurrence of an insurance event. Moreover, the opportunity to use the Bank's products and services at preferential terms is a significant benefit for Postbank's employees. These include home and consumer loans, credit cards, overdrafts, online banking. Staff members pay no fees for most banking operations such as cash transfers, withdrawals, etc.

### **Freedom of Association and Collective Bargaining**

Postbank attaches great importance to proper consideration of its employees' interest when making all key corporate decisions. The close cooperation with employees' representatives ensures and guarantees their basic rights, including the freedom of association and collective bargaining.

All Postbank's employees are included in a collective bargaining agreement. Collective bargaining is a part of the general structure contributing to the responsible management of the Bank.

### **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 Bank'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. The Bank believes 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, the Bank strives 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, Postbank recognizes the numerous opportunities to influence the public agenda. At the same time, the Bank understands that the unique position it enjoys makes it more imperative to abide by the principles of good corporate citizenship and to set a positive example for all of its colleagues, partners, fellow-citizens and clients to follow.

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

As a socially responsible institution, Postbank has pledged to employ all leverage it has to work for the preservation of the planet that our children will inherit. To this end, the Bank is not only determined to pursue a policy of environmental responsibility in its everyday operation through its dedicated employees, but also to gradually extend it to its 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 Eurobank Group. That is why, Postbank's 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.



**Petia Dimitrova**

Chairperson of the Management  
and Chief Executive Officer



**Dimitar Shoumarov**

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



**Asen Yagodin**

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

### ENVIRONMENT AND SUSTAINABILITY

In 2004, Eurobank Group became one of the few in Europe, which has established an externally certified, ISO 14001-compliant Environmental Management System. The procedures for the official listing of Eurobank in the register of European organizations that adhere to the EMAS (Eco-Management and Audit Scheme) regulation (Regulation EC/761/2001) on environmental management were completed in 2009.

Since then, Eurobank has been distinguished for three years in a row at the *European EMAS Awards*, each year in a different category. In 2009, Eurobank won the *National EMAS Award* on the theme, Supply Chain, including Green Procurement and received *2010 National Award* on the theme, *Resource Efficiency*. In 2011, Eurobank won the *European EMAS Award* on the theme, *Stakeholder Involvement, including employee involvement, leading to continuous improvement*, thus achieving the utmost distinction amongst all private sector large organisations competing in the contest.

Eurobank participates actively in a series of international initiatives such as the United Nations Environment Program Finance Initiative (UNEP FI), where it has taken up senior administrative positions in the Global Steering Committee, the Banking Commission, as well as the Chairmanship of the European Task Force of UNEP FI.

As part of Eurobank Group, Postbank follows its policies for environment protection and sustainability.

In 2012, Postbank was distinguished as the greenest company in the financial services industry in Bulgaria in a prestigious contest, organized by *b2b media*. It was awarded for the achievements in improving the Bank's internal processes leading to higher resource efficiency and the application of environmental risk management procedure in corporate lending. In 2015, the Bank kept on following its ambition to be a pioneer in the environment agenda in Bulgaria's banking industry. In 2015, Postbank was distinguished as Bulgaria's greenest financial institution in two national contests.

The Environment Office implements the Bank's strategy targeting both direct (those related to resource consumption and waste production) and indirect (those related to business activities, customers and suppliers) environmental impacts. These two wings of the strategy are supported by a number of projects dealing with the nature of the subject.

**Thus, as regards the direct environmental impacts, the unit has the following activities:**

- Energy consumption monitoring and analysis in terms of costs and kWh;
- Water consumption monitoring in terms of costs and cubic meters per financial centre;
- Paper consumption monitoring in terms of costs and number of sheets used per financial centre;
- Toner consumption monitoring in terms of costs, types and number of toner cartridges per financial centre;
- Coordination of projects related to improvement of efficiencies within the organization that have impact on resource consumption such as paper, toners, electricity, etc.

As far as the indirect environmental impacts are concerned, the Environment Office pursues the implementation of Environmental and Social Risk Management Procedure in the evaluation of loans, currently applicable for the loans extended from European Bank for Reconstruction and Development lines. This is being done through annual reports that the Office collects from the business units regarding the exposure to environmental risk of small, medium-sized and large corporate loans. This type of activity the Environment Office does in agreement with the Environmental Steering Committee and the respective Working Group in which all business units are presented, together with Risk, Corporate Communications, Legal and HR.

Apart from that, the Bank has incorporated specific environmental criteria in its procurement policy. Thus, the indirect environmental effects are spread over the supply chain.

### **Energy Consumption Monitoring and Analysis in Terms of Costs and KWh**

Following its strategy, as in previous years, the Environment Office kept track of the consumption of electricity, gas, diesel fuel and heating for all the branches of the Bank. CO2 footprint was measured in the organization as a whole and in each of its offices, which helped the identification of problematic areas with extensive consumption. Based on the collected information, top spenders were identified, and following the efforts in past years, they were visited by a dedicated technical team to determine the reason for the increased consumption. After the visits, the information was discussed by the head office Premises Department, which undertook the task of introducing improvement measures.

In 2015, a vast exercise regarding the optimization of the energy consumption in the branch network took place. As a result, the Premises Department team could focus on improving the energy efficiency in the most efficient, in terms of business indicators, branches, thus contributing to a further improvement of their performance.

The Bank carried out light refurbishment in the branch network across the country as part of its continuous efforts to maintain and improve it. The investments in previous years in the head office building, which hosts approximately half of the bank personnel, proved to have achieved the desired result.

The various activities, targeting further energy efficiency, led to a total decrease in CO2 emissions from electricity consumption across the country, which is reflected in the results presented in Table 1 below.

### **Water Consumption Monitoring in Terms of Costs and Cubic Meters**

Water consumption is tracked monthly in terms of costs and semi-annually in terms of cubic meters. The Bank's outlets were measured in terms of water consumption per employee. This exercise facilitated the identification of problems related to leakages and excessive water use.

### **Paper Consumption Monitoring in Terms of Costs and Number of Sheets Used**

Paper consumption is monitored monthly in terms of costs and semi-annually in terms of number of sheets per employee. Paper use per employee was determined as part of this analysis. Apart from monitoring, special efforts were put in establishing paper preservation habits of the staff and in collecting paper separately so that it can be recycled and reused in the future.

Upon relocating the head office in the new state-of-the-art building in 2012, special containers for paper were placed in the premises to facilitate separate paper collection. The improvement raised the staff's awareness significantly and currently all employees make sure they separate paper waste.

In 2015, as in previous years, the Bank carried out a few centrally-organized campaigns, aimed at cleaning the offices from unnecessary paper which had been piling up upon usage. As evident from the data in Table 1, 7% less paper was used in 2015, compared to 2014. Increased staff awareness and care for environmental issues played an important role in achieving these results. In this respect, the Green Board unit, the informal organization at Postbank in charge of this task, also contributed to the initiative.

### **Toner Consumption Monitoring in Terms of Costs, Types and Number of Toner Cartridges**

Since 2013, the Bank is using recyclable toner cartridges in its operations. The toner cartridges were disposed for recycling after use. Among other tasks, the Environment Office Collection was responsible for tracking the number of toners used by the Bank.

### Waste Collection

Postbank acknowledges the need of nature preservation and paid special attention to waste collection in 2015. One of the imminent measures in this direction is the installation of garbage cans for the separate waste disposal in the Bank's new head office premises. Separate collection of garbage is practiced across the country in all places where the local municipalities provide the necessary infrastructure. Apart from the special garbage cans, Postbank collected used batteries and light bulbs. Used batteries were disposed of in special containers placed in the head office building. The company in charge of the maintenance of the Bank's premises was responsible for the collection of used light bulbs in its offices and reported to the head office management (more particularly to the Premises Department which on its part reports to the Environment Office) on this activity. In addition, whenever renovation works took place in the Bank's branches or head office, the generated waste was disposed of strictly, following the respective local regulations.

All measures, described thus far, had an important effect on further raising employees' awareness of the need for paying attention to issues ignored in the past and for creating important habits with the ultimate goal to protect the environment.

### Efforts in the Area of Indirect Environmental Impacts

In 2015, Postbank continued putting efforts in the improvement of risk management of its loan portfolio, by incorporating environmental criteria in risk assessment. Training of all SBB and CBD officers in the Environmental and Social Risk Management Procedure continued taking place, using the Bank's intranet where the training materials by the European Bank for Reconstruction and Development and in-house materials provided by the Environment Office were uploaded and available to all employees.

An important development in 2015 was the expansion of reporting on environmental risk related to the Bank's loan portfolio. For the purpose, a bank-wide project was initiated in order to develop a suitable methodology and identify the best IT solutions. As a result, towards the end of 2015, environmental risk monitoring became possible for the whole portfolio of the Bank. The reporting system needs additional fine tuning, scheduled for 2016, and is considered a main priority of the Environment Office for this year and a major step forward towards sound environmental risk management in the institution.

### Indicators

As an important part of the efforts in managing internal resources, the Environment Office started collecting energy consumption data in kWh at the beginning of 2012 in order to better understand consumption patterns by isolating consumption trends from energy price fluctuations. Based on energy consumption data in kWh, a semi-annual analysis was prepared showing the total energy consumption of every financial centre in kWh, in kWh per m<sup>2</sup>, in kWh per employee and the CO<sub>2</sub> emissions. This analysis allows for comparison among the numerous financial centres of the Bank not only in terms of costs, but also in terms of kWh. Thus the following main key performance indicators were determined:

- Average kWh/employee consumption;
- Average kWh/m<sup>2</sup> consumption;
- Top energy spenders and top energy savers in terms of CO<sub>2</sub> emissions.

Based on the consumption measurements of the Bank's offices, deviations from the average energy consumption in the Bank were identified which facilitated the root cause analysis of the reasons for excessive energy consumption. The analysis helped introduce corrective and preventative measures in the Bank's premises in order to curb unnecessary consumption.

As a result of data collection and analysis, key indicators were determined, revealing the success of the efforts in the implementation of the environmental policy. They are presented in Table 1 below.

## CONTRIBUTION TO SUSTAINABILITY

There was a noticeable decrease in paper, water and electricity consumption in 2015, compared to the previous years. As mentioned above, the decrease in paper consumption was due to the achieved internal processes and resource efficiencies. The decrease in water consumption resulted from the already well-maintained premises of the Bank where a lot of leakages and other problems were eliminated in the past few years after the centralized maintenance was introduced. Electricity consumption was reduced in 2015 as a result of a number of measures implemented on the premises of the Bank, as explained above.

INDICATOR	2012	2013	2014	2015	Δ 2015-2014	Δ 2015-2012
CO2 emissions from electricity consumption, t	7,421	6,096	5,558	5,391	-3%	-27%
Water, m3	89,217	81,740	52,646	46,767	-11%	-48%
Sheets of paper	37,610,615	34,315,000	32,325,000	30,073,000	-7%	-20%

Table 1. Key Environmental Indicators (2012–2014)

Postbank has prioritized several main goals for 2016. They are very much determined by the acquisition of Alpha Bank and the need for covering the “new” physical locations, the respective loan portfolio and the new employees in terms of implementation of the Bank’s environmental procedures and processes. The goals are as follows:

- Integration of the branches formerly part of Alpha Bank in the reporting mechanisms for resource consumption;
- Improving the environmental risk management reporting and covering all deals, including those signed by Alpha Bank;
- Enhancing staff awareness on environmental issues and the Bank’s related procedures through the improvement of internal training materials, as well as through organizing suitable trainings.

In 2015, Postbank had no fines imposed related to environmental issues. The Bank committed to continuing its efforts, pursued until present, in managing its direct and indirect environmental impacts



## INVESTING IN SOCIETY

### SOCIAL CONTRIBUTION

Investments in sustainable development were an essential part of the activities of Postbank in 2015 as well. The team of the financial institution firmly believes that the development of long-term sustainability of the business contributes to the overall well-being and development of society.

The Bank was very active in the field of corporate social responsibility and implemented numerous socially significant projects in the fields of education, child care, environmental protection, sports and corporate philanthropy. Among them are the joint project of the Bank and UNICEF Bulgaria *Best Start for Every Child*, the charity relay race *Postbank Business Run*, the internal programme *Green Start with Postbank*, the participation in the international initiative *PARKing Day*, the partnership with the American University in Bulgaria, the financial literacy campaign, *Finance by Notes* and many others. The Bank works with some of the largest NGOs in Bulgaria and strives to be their long-term partner. Its social responsibility projects were distinguished in 2015 with awards in the most prestigious competitions in the country.

### INVESTING IN EDUCATION

In November 2015, Postbank carried out a national representative study, aimed at determining in which financial area Bulgarians feel confident and at outlining the current state of financial literacy in the country. This marked the start of a new corporate social responsibility campaign, *Finance by Notes*, as the topic of the skills necessary to handle personal finances was becoming increasingly relevant. The customers confident in their knowledge are able to plan and manage more profitably their funds, and to significantly increase their quality of life and of the decisions they take in their business or personal fund management.

The ambition of Postbank's team is the new campaign, *Finance by Notes*, to build upon what it has already achieved in the field of education through the implementation of new technologies and the use of digital communication channels. The campaign aims at raising customers' awareness in two main directions – becoming familiar with the benefits from the various banking products and strengthening the trust between the Bank and its customers. The development of a comprehensive programme for financial literacy includes also an online project on the social network Facebook where an application for sharing experts' and consumers' advice was launched. Within just a few weeks, tips in three main categories were collected in one place, namely savings, spending and investment. In a very short time the Bank's team created and distributed communication materials for the campaign via its branch network in the country. The financial institution aims to develop the potential of *Finance by Notes* in 2016.

### INVESTING IN CHILD CARE

Young people and children in Bulgaria are the focus of the Postbank's corporate social responsibility programmes. In 2015, the Bank continued its strategic cooperation with UNICEF to develop a network of centres for maternal and child health, helping families take care of their babies and toddlers. At the end of 2013, the financial institution launched its long-term partnership campaign with UNICEF Bulgaria, *Best Start for Every Child*, which has been considered the largest and the most awarded CSR project realized by a financial institution in Bulgaria so far.

In 2015, *Best Start for Every Child* became the subject of a major communications campaign which turned

## CONTRIBUTION TO SUSTAINABILITY

it into the CSR project with largest media coverage and the most effective fund-raising campaign in the country. In December 2015, the money raised via donations was BGN 630,000. There are two Centres for Maternal and Child Health (in Sliven and Shumen) in the country which provided nearly 18,000 free home visits by nurses and over 32,000 consultations to pregnant women and parents of young children. 6,750 children in Bulgaria received a chance for a better start in life. The opening of a third centre in the town of Montana is planned for the beginning of 2016.

### INVESTING IN SOCIETY



In another strategic and long-term partnership with the American University in Bulgaria, Postbank invested in innovation room in the prestigious school. It started functioning in 2015 with Postbank's support and turned into a centre for numerous useful initiatives and events.

In 2015 the Bank continued providing long-standing support to socially disadvantaged people, working with them and encouraging their active role in the society. On the occasion of 1 March, Postbank traditionally

sent over 11,000 handmade martenitsas as a special gift to customers, partners and employees. *Third Age foundation* in Rousse and *association Future for Children with Disabilities* in Kazanlak have been partners to Postbank's initiative for more than five years, by producing martenitsas and also Christmas cards for customers and partners.

The financial institution annually invests in the installation of a beautiful Christmas arch at the central area of Sofia as a holiday gift to its residents and guests. Thus, the Bank contributes to the Christmas decoration of the capital every year.

For the second consecutive year, Postbank supported the initiative, *Open Your Eyes to Free Access for Guide Dogs*, of the Eyes on Four Paws foundation.

### INVESTING IN SPORT



For the third consecutive year, Postbank was the main partner of the charity relay race, *Postbank Business Run*, organized by running club "Begach". In 2015, the race attracted over 900 participants from 150 companies operating in various business sectors. Thanks to the initiative over BGN 8,000 was raised to provide therapeutic activities, offered by St. Sofia Support Centre, to children with special needs or developmental difficulties.

## CONTRIBUTION TO SUSTAINABILITY

Postbank also invested in supporting sports, winning at international level. In July 2015 the financial institution became a major sponsor of the men's national tennis team and supported its preparation for the upcoming Davis Cup games in Luxembourg. Thus, once again the Bank demonstrated the successful combination of its business activities and corporate social responsibility campaigns.

### INVESTING IN ECOLOGY



In September 2015, Postbank joined for the third consecutive year the international initiative, PARKing Day, organized by Credo Bonum foundation. As part of the campaign, *Flying City Dwellers*, the financial institution surprised the local residents, transforming their usual parking spots on the Tsar Ivan Shishman Str into art workshops. The aim of the event was to attract people's attention to the protection of birds and their natural

habitats. The financial institution is the only bank in Bulgaria that has developed own Green Board and Environmental Office in its organizational structure. They protect the environment by of limiting the Bank's use of natural resources and via its financing activities.





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