

FINANCIAL AND
SUSTAINABILITY
REPORT
2019



RETAIL BANKER
INTERNATIONAL
Customer Centricity
Postbank





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CONTRIBUTION TO SUSTAINABILITY

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CONTRIBUTION TO SUSTAINABILITY

WORLD
FINANCE

BEST RETAIL BANK,
EUROPE

EVERY
ACCOMPLISHMENT
IS JUST THE STEP TO
THE NEXT ONE.

LETTER TO THE SHAREHOLDERS



Dear shareholders,

2019 was not just another constructive and successful year for Postbank. It was a year that can be justifiably defined as historical. It was marked by some of the most important events and exceptional achievements in the almost thirty-year-long history of our Bank.

We acquired the shares of Piraeus Bank Bulgaria AD on 12 June 2019 and in a record period of only 4 months until November we managed to finalise the legal and operational merger, without slowing down the pace of our development in the meantime. Of course, a key role in this achievement was played by the huge experience gained three years ago during the integration of Alpha Bank – Bulgaria Branch, when we laid the beginning of the new wave of acquisitions in the market. The deal with Piraeus Bank can be described as yet another outstanding success. I would like to thank my colleagues for it. They have once again demonstrated the strength of teamwork and high motivation. Piraeus Bank Bulgaria has added to our naturally strong performance and as a direct result Postbank became the third biggest bank in the country in terms of its loan portfolio and deposit base with a market share of more than 10% at the year-end.

Allow me to acquaint you with the distance we travelled in conquering this amazing and fundamental to our operations result.

The net profit reported amounts to BGN 213,7 million, an increase of more than 35% compared to 2018. Postbank has strengthened its strategic position in both retail and corporate banking in Bulgaria. We retained our leading positions in the credit and debit card market, housing and consumer lending, savings products, as well as products oriented to corporate clients – from small companies to large international businesses present in the country. The Bank provides to its clients some of the cutting edge digital banking channels, which, in combination with the big branch network, secures a very good position, thus helping us be even more successful during the years to come.

In a constantly changing digital world we continued offering innovative banking products and services and developing modern banking channels, adding value to our clients and strengthening the Bank's leading position as a trend-setting institution at the market.

In 2019 we continued our investment in one of the most convenient services – the MOMENTO consumer lending centres. Focus in the effort to ensure seamless customer experience was the development of our specialised consumer and housing lending centres. Immediately after the successful acquisition of Piraeus Bank Bulgaria in November 2019 we launched the first three digital branches of a new generation, combining innovative self-service zones and many other facilities for the clients. This symbolic event, which took place simultaneously in three locations, laid the beginning of a process of overall transformation of our branch network.

The contribution to society remains an irrevocable element of our mission. We are a socially responsible company, which considers investment in the development of a sustainable business an important element in its operations. In 2019 we implemented and supported many socially significant projects in the field of education, environmental protection, sports and corporate charity.

The education of children and youths in Bulgaria has always been part of the corporate social responsibility projects developed and supported by us. This is why, with a clear goal, we continued our joint project with one of the most modern and innovative educational institutions in our country – SoftUni. It supports education in Bulgaria and includes various activities preparing young people for the professions of the future and for their professional career in Bulgaria.

Caring for the environment and the local communities is part of our business model. We strive to save resources and reduce our footprint. Therefore, we are proud to share that in 2019 we built on one of our most successful internal initiatives "Heroes in Green". Together with the entire team of Postbank we continue to seek and find new ways to care about the protection of the environment. All employees have the opportunity to apply and present their ideas.

LETTER TO THE SHAREHOLDERS

In 2019 our efforts were highly appreciated and we deservedly won many prestigious international and Bulgarian awards, which made Postbank one of the most awarded banks at the Bulgarian market. For a second year in a row Postbank was appointed best retail bank in Bulgaria for 2019 in the prestigious “World Finance Banking Awards 2018” contest of World Finance Magazine. We received huge recognition for our high results and work optimisation by winning the prestigious international award for “Excellence in Customer Centricity”. The financial institution is among the winners in the 12 categories in the highly competitive “The Retail Banking: Europe 2019” Awards, organised by Retail Banker International, the top European magazine with focus on retail banking. The award acknowledges the high results and work optimisation achieved through the implemented innovative digital signature payment documents confirmation tool.

The global leader in payment services Western Union awarded Postbank with the special prize for “Sustainable Business Growth 2018”. The Bank was distinguished among all financial institutions Western Union partners with in Bulgaria for the development of payment services in the country.

We retained our leading position as the largest custodian bank in the country as an entity servicing the biggest number of collective investment schemes and we were recognised by Global Custodian Magazine as the best custodian bank in Bulgaria for an eight year in a row. Once again the Bank achieved top score in all categories.

Our successful corporate social responsibility and corporate communication were recognised with a total of four awards in the prestigious PR contests and BAPRA Bright Awards communications and PR Prize 2019, we also received the Effie prize for “EVA Chatbot – High Stakes Small Innovation” campaign, which promotes the first banking chatbot in our country – EVA Postbank.

For a second year in a row Postbank was recognised as “Employer of the Year” in b2b Media Employer Branding contest.

All of these achievements were attained through the high motivation and with the active involvement of all of our employees. I would like to express my gratitude to them, as these results would not have been possible without their dedication, loyalty, ambition and hard work. I would also thank the Group and the shareholders for their trust, support and advice, which contributed greatly to our achievements.

We continued to encourage strongly initiative, creativity and the readiness of each employee to be part of the development and success of our Bank. The “Idea” contest is a platform where all employees have the opportunity to present directly their work optimisation ideas.

During the past year the internal donation platform “ZAEDNO”/“Together” providing support to colleagues suffering life-threatening conditions, which was launched at the end of 2018, has proven its worth. We created the platform with the idea to strengthen the solidarity

between the employees and to have a functioning mechanism for financial support to employees suffering serious health issues. Thanks to this initiative two of our employees were supported in their fight against heavy diseases. We demonstrated that together we are stronger, that we can do more and we are willing not only to be the best bank at the market, but the best and most responsible employer.

The main goals of Postbank in 2020 will focus on maximising the revenue and maintaining a double-digit return on equity. The Bank will expand its loan portfolio at the same pace as the development of the market, retaining its position as the third biggest creditor. Capital adequacy will be strengthened through retention of the net profit for the year in order to meet the increasing regulatory requirements.

We will also continue to invest in better products and excellent customer service through the revitalised branch network and cutting edge digital channels. Our long-term strategy remains unchanged – to make Postbank the primary, preferred bank for its clients, constantly exceeding their expectations, thus creating added value for them and for the Bank’s shareholders.

We continue forward together and will set even more ambitious goals, because we know that we can reach new heights and achieve exceptional results only when we challenge ourselves!

Sincerely yours,

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

BANK PROFILE

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

Postbank, legally named Eurobank Bulgaria AD, is the fourth largest bank in Bulgaria with a broad branch network throughout the country and a significant client base of citizens, companies and institutions. The Bank has a nearly 30-year presence among the leaders in the banking market in Bulgaria. It has been a leading factor in innovation and trends in the banking sector in the country in the recent years and has been awarded many times for its innovations. The financial institution holds a strategic place in retail and corporate banking in Bulgaria.

In November 2019, Postbank successfully completed the acquisition of Piraeus Bank Bulgaria, which is another step in consolidating its position as a systemic for the market bank, expanding its client base and developing its team. The operative merge was done in record time - five months, and as a result of its merge with Piraeus Bank Bulgaria, Postbank acquired a market share in total of the Bulgarian market of more than 10% in terms of assets, loans and deposits. The united Bank has an even wider branch network of more than 200 branches across the country and continues to offer innovative products and services, high quality of client service and flexible financial solutions for individual and business customers. For the successful completion of the merger with Piraeus Bank Bulgaria, winning even more the shareholders' trust and the proven ability to lead a team, Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board of Postbank, was honored with the Special Banker of the Year 2019 Award. And the financial institution received the Transaction of the Year Award, which honored the Bank in the 27th edition of Bank of the Year awards, organized by the Bank of the Year Association.

As a leading employer, which evaluates its success through the satisfaction of its employees, Postbank has always strived to develop the skills of its team members and to provide an environment for unlocking their potential. Due to its active policy in this direction, the financial institution received two gold awards in early February 2020 from the annual Employer branding awards organized by b2b Media. They are for the 2019 overall project aimed at the development and motivation of the company's employees, as well as for its innovative approach to talent management. The focus of the company is a wide range of activities for optimization of the working environment, continuing professional development and training, involvement of employees in corporate social responsibility projects with high added value for the society.

The Bank also received a prize for Leadership in the Banking



Sector, Technology Development and Human Resources from the 5th annual Company of the Year Awards, organized by Bulgaria Business Review Group. They distinguish the best companies in different industries by publicizing their achievements and focusing public attention on their innovative and successful management models.

The bank is one of the leaders in the market of credit and debit cards, mortgage and consumer lending, savings products, as well as in terms of products for corporate clients - from small companies to large international companies with presence in the country. The financial institution has one of the most well-developed branch networks and modern alternative banking channels, paying special attention to the quality of customer service.

In June 2019, the Bulgarian Credit Rating Agency (BACR) confirmed the long-term credit rating BBB-, a stable outlook.

In 2019, in order to meet the expectations of modern consumers, the Bank continued to invest in Momento's innovative consumer lending brand and opened five new centers. The modern sites, in accordance with the brand concept, are situated again at the top locations in some of the most visited shopping areas in Burgas, Varna, Plovdiv and Sofia, and they work every day with extended working hours.

Momento's development outside of Sofia is part of Postbank's strategy of constantly expanding its innovative channels of customer contact and providing the best solutions tailored to their needs. The expansion of the network is in response to the demand from users for convenience, speed, individual

approach and more digital services. The innovative brand received the Favorite Brand Award for Bulgarians in the Financial Institutions category from the 11th edition of the ranking, based solely on consumer attitudes.

In 2019, Postbank opened its three pilot digital offices of new generation, launching a process of complete transformation of its even wider branch network. The new offices concept is consistent with the Bank's intention to provide excellent consumer experience when in contact with the institution. On the one hand, it combines



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self-service areas in which the customers can carry out various operations quickly and easily, and on the other – it relies on a more open, comfortable and modern interior.

At the end of 2019, Postbank received a prestigious international award for providing an Excellence in Customer Centricity or Customer experience. The financial institution is among the winners in the 12 categories of the contested The Retail Banking: Europe 2019 Awards, organized by Europe's leading retail banking magazine Retail Banker International. Other contestants and winners include the names of some of Europe's largest, most stable and well-established banks - Santander, Dankse Bank, Nordea, BBVA, Raiffeisen bank, OTP. Postbank's recognition is for its high results and optimization of work, thanks to the innovative way of verifying payment documents with a digital signature. As a modern bank, working with respect for environmental protection and taking care of its clients, the financial institution is among the first in the market in Bulgaria, which introduces the signing of digital signature documents throughout its branch network.



For second year in a row, Postbank has been recognized as the best in retail banking in Bulgaria. The award is from the prestigious World Finance Banking Awards 2019, organized by World Finance Magazine, an authoritative publication that monitors and analyzes the financial industry, international business and economy. The recognition is for Postbank's innovative and sustainable retail banking model, its advanced products and services, its extensive branch network across the country, alternative channels of communication and the numerous opportunities for professional financial advice from its experts.

The world leader in payment services Western Union honors Postbank with the Special Award for Sustainable Business Growth 2018. The Bank was honored for the development of payment services in the country among all financial institutions with which Western Union partners in Bulgaria. The award is given for the professional approach, knowledge, hard work and overall contribution



of Postbank to business development in Bulgaria, according to Western Union Regional Business Team Bulgaria.

For the eighth consecutive year, Postbank has been named the top trustee in Bulgaria by Global Custodian Magazine, the world's most prestigious trust services magazine, known for its annual surveys, which are considered a benchmark for the sector. The Bank again has the highest numerical ratings in all categories.

It was the fifth time Postbank received high honors from European Bank for Reconstruction and Development (EBRD) - Award for Most Active Bank in Bulgaria in Trade Financing. The prize was presented at an official ceremony held in Sarajevo, Bosnia and Herzegovina. The Bank achieved a total volume of transactions under the program, amounting to over EUR 17 million. With the help of the EBRD's Trade Finance Program, the institution actively supports foreign trade activities of Bulgarian companies by providing them a full range of products that minimize the risks as well as opportunities to develop foreign markets. Postbank traditionally reports excellent results in the factoring services and for a consecutive year it is a leader in the factoring market in Bulgaria - with over 45% market share of the total volume of factoring business and 60% share of export factoring.

Postbank was also the only financial institution - a finalist from Bulgaria, in the 12th edition of the International Business Best Practices and Excellence Competition - European Business Awards, created to highlight best practices and promote innovation and entrepreneurship spirit among the business community in Europe.

In 2019, the financial institution, which has traditionally been a leading partner of the business in the country, supported the unique Dare to Scale pilot growth program - the first of its kind in Bulgaria aimed at businesses with the potential to grow their business more extensively. In the project of the Bulgarian office of the global network Endeavor were selected 10 native companies. Selected entrepreneurs underwent training and interactive sessions led by successful practitioners and leaders from the Endeavor network, including the well-known serial entrepreneur Vasil Terziev, Chairman of the Board of Endeavor Bulgaria and co-founder of Telerik, Telerik Academy, and the Incubator Campus X Svetozar Georgiev, Romyana Ivanova, Head of the Small Business Banking Division at Postbank, as well as many others. The training covered the main areas that every successful company needs - organization management, marketing, sales, financial planning and raising capital.



The Dare to Scale growth program will continue in the upcoming years to encourage the growth of even more new local businesses. This was made clear during the closing event (Demo Day) of the pilot edition of the program, where ten companies from the first season presented their projects and ideas to established business leaders in the country.

By participating in the Dare to Scale program, Postbank is actively contributing to the development of both promising scale-up companies and the business environment in our country. This is another expression of its strong intent to foster bold ideas, support innovation and competitiveness for businesses and the economy. Endeavor's Dare to Scale program, with Postbank being a main partner, is the winner of the CESAwards Bulgaria 2019 prestigious Best Accelerator Program category.

During the year, Postbank continued to organize a series of specialized conferences in support of business in the country, entitled "Postbank Meets the Business". More than 300 entrepreneurs and representatives of small and medium-sized enterprises participated in the event, which took place in 2019 in Sofia. In an open discussion the Bank representatives consulted the participants in the meeting on



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the processes of corporate funding and advised them on the successful implementation of investment projects.

In 2019, the financial institution was the major partner of a series of business breakfasts, part of the Imoti.net Annual Awards project. During the meetings with representatives of the real estate business, the Bank experts discussed the market trends and being leaders in the lending sector, presented their analysis of the market, the profile of consumers and the most current conditions for mortgage loans by Postbank.

For the fifth consecutive year in 2019, the Bank supported the national contest of the 24 Hours Daily – The Big Small, because it attaches great importance to the development of small businesses.

Postbank supported the initiative of the CAUSE Foundation, Entrepreneurship Exchange 2019, as part of its focused efforts to develop the entrepreneurial ecosystem in our country. A record number of participants from all over the country - 40, participated in this edition of the event, which is establishing itself as a working platform for a meeting between entrepreneurs and potential investors.

Through its partnership with Eurobank Private Bank Luxembourg and its 100% specialized and highly customized private banking services, Postbank continues to develop its modern Private Banking Center. The Bank's clients can benefit from a range of investment services in trust management, asset management and business consulting.

NEW PRODUCTS

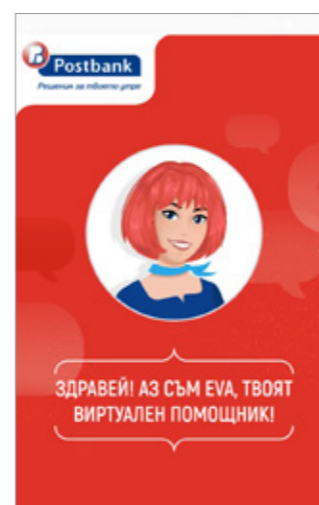
Postbank introduced more innovative products and services in 2019, focusing on offering convenience and added value benefits to customers.



EVA Postbank is the first mobile banking application in Bulgaria with a live chat feature, created specifically for the acquisition of Piraeus Bank Bulgaria, for the benefit of both Piraeus Bank clients in the process of acquisition and current Postbank clients. The modern interactive application, with no analogue on the market, is part of Postbank's strategy to improve and upgrade the digital solutions it offers. It is crucial for the Bank to provide convenient ways of servicing its customers, tailored to their dynamic daily lives and their needs at all times, wherever they are. EVA Postbank is a virtual advisor which is actually in the client's phone and can assist with answers to the most common questions about the use of products and services provided by the Bank, questions regarding the merge of the two banks, location of the nearest offices and ATMs and many others. For

more information and further advice, EVA Postbank directs customers to contact an expert from the Bank via the live chat feature.

In 2019, Postbank launched an innovative mobile service on the market that saves time and costs for consumers and employers. This is a special place, which is located upon request in the business centers and malls, and provides an easy opportunity for free expert consultation on various



financial products and current offers. Among the strongest advantages of the service, besides saving time and the convenience of the Bank to "visit" in your office, is the possibility for the client to receive an individually flexible solution for his needs. After the on-site consultation, he or she may go with the expert to complete the application for a banking product.

After an in-depth study of consumer attitudes, in May the Bank entered into a new strategic partnership in the interest of its customers - with ClaimCompass, a Bulgarian technology company that

professionally protects passengers' rights in the event of problems with their flights instead. The Bank credit cardholders may benefit the innovative service, which is the only one offered in the market. They are also offered an exclusive opportunity - to request a follow-up flight and in case of a problem, ClaimCompass contacts the customer and informs them of the next steps to file a claim and receive compensation.

Postbank offers targeted consumer credit for business training worldwide, with no analogue on the market in our country. It can finance fees under various programs such as Master of Business Administration, Executive Master of Business Administration, Advanced Management and more. The new product was created in response to the growing interest in financing trainings that pave the way for career growth and development registered by the Bank in recent years.

In 2019, Postbank continued to offer its modern and convenient Mobile Bankers service. The service is a free professional consultation, with experts providing solutions tailored to the client's specific needs and assisting in completing the necessary documents and entering a bank branch. Mobile bankers answer all questions related to consumer and mortgage loans, overdrafts and credit cards, at a convenient and pre-ordered time and in a place preferred by the customer.

Postbank has continued its partnership with Booking.com, the world's leading provider of accommodation, with all Postbank Mastercard and Visa credit card holders receiving an additional 3% discount on each booking through the Bank's Booking.com website in Bulgaria or abroad.

The Bank continued to offer its clients the More Today lending program. With it, customers can increase their income by up to 50%, and in some cases even more. It includes a wide range of credit products, allowing customers to quickly and easily consolidate their credit card, consumer or mortgage loans up to 100,000 BGN. In addition to better personal finance management, the program allows users to save time by paying one higher payment to one bank on a specific date.





Postbank has shown growing interest in home loans. The increase in property purchases has contributed to an increase in home loan applications compared to the same period last year. Postbank reports a 44% increase in the volume of mortgage loan applications for the period January-September 2019 compared to the first 9 months of 2018. Demand for larger properties continues - mainly for three-bedroom homes with an area of more than 90 square meters. The greatest interest is in monolithic homes, new construction in big cities. During the first 9 months of the year, there was also an increase in the sale price of the properties, according to Postbank data, an increase of 7.53% in the average price per square meter of financed residential real estate in Sofia compared to the same period last year. This trend, as well as the interest in buying larger-sized residential properties, lead to an increase in the average size of the requested mortgage loan, which according to the financial institution has increased by 10% compared to the same period in 2018.

AWARDS DURING 2019:

- Prestigious International Award for Delivering Excellent Customer Experience in Banking in the Excellence in Customer Centricity / Customer experience category of the European Business Competition - The Retail Banking: Europe 2019 Awards, organized by the leading retail banking magazine Retail Banker International
- Award for the eighth consecutive year for Best Bank in the provision of custodian services by Global Custodian Magazine - the prestigious global edition of Capital Markets, Asset Management and Investment
- Postbank received high honors for the fifth time from the European Bank for Reconstruction and Development (EBRD) - the award for "Most Active Bank in Bulgaria in Trade Financing for 2018"
- For second year in a row, Postbank grabbed the Best Retail Banking in Bulgaria Award from the prestigious World Finance Banking Awards 2019 organized by World Finance Magazine
- Endeavor's Dare to Scale Growth Program, with Postbank's main partner, is the winner in the prestigious Best Accelerator Program category of the 2019 CES Awards Bulgaria, organized by the Association of Bulgarian Leaders and Entrepreneurs (ABLE)
- Special Award for Sustainable Business Growth 2018 by the world leader in international money transfer Western Union
- Deal of the Year Award from the 27th edition of the Bank of the Year Contest
- Special Award for Contribution to the Bulgarian Economy from the Economic Magazine, which honors top companies from different sectors on the occasion of its 30th anniversary
- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board of Postbank, was honored with the Special Banker of the Year



2019 Award for the successful completion of the merge with Piraeus Bank Bulgaria, the gained shareholders' confidence and the proven ability to lead a team

- Dimitar Shoumarov, Executive Director and Chief Financial Officer of Postbank, wins the Atanas Burov Award 2019 for bank management
- Employer of the Year Award for the second consecutive year at the prestigious Employer Branding Awards in Bulgaria, organized by b2b Media
- Two first prizes in the Innovation in Talent Management category and the Employer branding project category at the authoritative Employer Branding Awards organized by b2b Media in January 2020.
- Bronze in the Services category for the EVA Chatbot - Small Innovation with a Big Bet campaign, which promotes the first EVA Postbank bank chat, at the Effie Awards 2019
- First prize in the Innovative Company of the Year category of the fifth edition of the b2b Media Annual Awards 2019 for overall digital transformation strategy
- Award for "Leadership in the Banking Sector, Technology Development and Human Resources" from the 5th Annual Company of the Year Awards, organized by the Bulgaria Business Review Group
- Postbank Momento's innovative brand received the Favorite Brand Award of Bulgarians in the Financial Institutions category from the 11th edition of the Consumer Rankings
- Awarded by 2019 BAPRA Bright Awards for the Digital & Successful Together Employer Branding Campaign
- EVA - Our Best Employee, New Service Award from the prestigious BAPRA Bright Awards 2019
- Award in the category "Internal Communication Department of the Year" from the PR Prize 2019 for the project "Digital & Successful Together"
- Award in the category "Employer Branding Communication Campaign" from the PR Prize 2019 for the Digital & Successful Together project
- First prize in the category "Business Educational Orientation Project" from the fifth edition of the b2b Media Annual Awards 2019 competition for the strategic long-term cooperation with SoftUni launched in 2018
- Eco Employer Award from the Career Show 2019 Awards
- Second place in the "Company Website" category of the annual "Site of the Year 2019" competition
- Business Environment Sustainability Award in Bulgaria for the partnership of Endeavor Bulgaria's unique Dare to Scale project at the Annual Golden Hearth Awards by Business Lady magazine and Bulgaria Business Review.



FINANCIAL REVIEW

EUROBANK BULGARIA PERFORMANCE AND KEY INDICATORS FINANCIAL HIGHLIGHTS

	2019	2018
BALANCE SHEET (All figures in '000 BGN)		
Net Loans and Advances to customers	7 111 741	5 271 189
Core Client Deposits	9 438 085	6 814 255
Shareholders' Equity	1 473 294	1 250 660
Total Assets	11 183 699	8 197 199
PROFIT AND LOSS STATEMENT (All figures in '000 BGN)		
Net Interest Income	336 478	311 513
Net Fee and Commissions Income	94 012	82 898
Net trading Loss/Gain	5 518	4 596
Other operating income	582	566
Bargain gain	78 690	0
Total Operating Income	515 280	399 573
Total Operating Expense	198 633	144 207
Deposit Insurance Fund	(19 501)	(16 358)
Provisions for impairment	(66 067)	(63 799)
Profit Before Tax	231 079	175 209
Income tax	(17 380)	(17 782)
Profit After Tax	213 699	157 427
KEY FINANCIAL RATIOS		
Total Capital Adequacy Ratio	16,82%	20,06%
Net Interest Margin	3,0%	3,8%
ROA (after tax)	2,34%	2,00%
ROE (after tax)	15,78%	12,72%
Earnings per Share	0,38	0,28
Total funding	9 492	6 865
Fees & Commissions/OPEX	47,33%	57,49%
Provisions/Loans	0,93%	1,21%
Provisions/Operating income	12,8%	16,0%
Cost/Income Ratio	38,5%	36,1%
Net Loans/Deposits ratio	75%	77%

WORLD ECONOMY

The world economy left behind one of the worst years since the end of the financial crisis. Geopolitical tension, weak trade and investments added to a wave of natural disasters in various parts of the world and lowered the GDP growth rate from 3.7% in 2018 down to an estimated 2.9% in 2019. Fortunately, a more severe slowdown was avoided and by the end of the year there were already indications that the GDP prospects have been improving. The worst fears of a trade war between US and China have largely been avoided with the signing of "Phase one" deal between the two countries which helped deescalate the tension. The accommodative monetary policy and fiscal easing in some countries were also vital contributors for GDP support.

Prominent downside risks include the rising geopolitical tension in various parts of the world, further worsening of relations between United States and its trading partners and sharper-than-expected slowdown in the leading economies.

Furthermore, a major challenge for the international community is the recent coronavirus (Covid-19) outbreak, whose expansion worldwide is expected to cause a transitory negative impact in the global economy. The effects of the Covid-19 on the economic activity depend heavily on the range of its possible world expansion and the timing of its curbing. Countries worldwide, and Bulgaria among them, have already taken measures to contain the virus' expansion (e.g. travel restrictions, quarantine measures), strengthen the health systems' ability to deal with the outbreak and cushion the shock on both economic supply and demand via fiscal measures. In addition, certain Central Banks, including the US Fed, ECB, the Bank of England and many others have implemented measures of monetary accommodation. Conditional on the above, the baseline scenario is that the expansion of the virus globally and EU-wide will be contained and gradually slowed down (as is already the case in China) until the end of the first half of 2020. In such a case, the outbreak is expected to have a notable negative economic impact mainly on the first and, to a lesser extent on the second quarter of 2020. The European economies are expected to rebound in the second half of 2020. In the adverse scenario, however, a negative impact on certain industries of the global economy cannot be ruled out, such as a) lower tourism revenues, b) reductions in the demand for the manufacturing sector's product, as a result of the slowdown in key markets and c) disruptions in the manufacturing sector's supply chains. Continuation of the slowdown in economic activity could affect the non-performing exposures of the Bank and might put some pressure on the revenue side resulting from lower fees, commission and interest income. The Bank is continuously monitoring the developments on the Covid-19 front and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business plan for the quarters ahead.

In the medium term the high debt levels of some countries pose a risk once the environment of low interest rates comes to an end.

In the beginning of 2019, the EU economy was performing relatively well but started losing momentum as the year progressed. In the last quarter of the year some of the biggest European economies such as France and Italy even were contracting on a quarterly basis, while the German economy rose by the modest 0.2%. Nevertheless, there are signs that the downturn is nearing its bottom and the prospects for the next year look mildly optimistic. The growth in the Eurozone in the next 2 years is projected to remain at the same level as in 2019 – 1.2%, while for the EU as a whole it will be slightly higher - 1.4%. The European economy is in a good position to overcome the challenges in the next years helped by the increase of the real income, the supportive fiscal

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and monetary policies and solid construction sector. In January 2020 UK finally left the European Union and although many issues remain unresolved at least there is clarity about the trading relations until the end of the current year.

The past year also showed a shift towards a more relaxed monetary policy. In the United States the rates were cut three times in the second half of 2019 while in the Eurozone, the ECB announced a new stimulus measures in September 2019. These included 10 bps cut to the deposit rate to -0.5% and a new open-ended quantitative easing program of €20m per month. In addition, ECB will continue to reinvest the principal payments from all maturing securities. Thus for the foreseeable future the monetary policy will remain supportive, however, this is unlikely to be enough to propel the growth to the desired levels in the absence of a stronger fiscal stimulus which in the current environment seems highly unlikely.

ECONOMIC SITUATION IN BULGARIA

The Bulgarian economy continues with its steady growth and for a fifth consecutive year the real growth rate is in excess of 3%. GDP grew by 3.4% in 2019 according to the preliminary data by NSI, an improvement, compared to the 3.1% in 2018.

The economy continues to be driven mainly by the consumption – in 2019 it was up by 5.7% in real terms. The data about the investments showed that they grew modestly by 2.2% which was rather unexpected since the construction sector is booming and some large infrastructure project have commenced. The contribution of the external sector was negative – exports increased by 1.9% in real terms, while imports grew by 2.4%.

The trade deficit shrank by more than 50% in 2019 to 3.37 billion leva due to the lower import of oil reported by the national statistics. According to the data, Bulgaria cut its import of mineral oils by almost 2.9 billion leva, but this number is expected to be revised as there is a delay in the reporting of the imports due to a change of the methodology. The imports from third countries was down by almost 12% with imports from Russia accounting for four-fifths of the decrease. As a result, Russia was replaced by Turkey as the biggest importer in Bulgaria outside the EU countries. In the same time, the trade with the countries from the block was developing well – both the imports and the exports rose by 2.8%. Exports to countries outside the EU was affected by the decline in the export of mineral oils and ores, but this was compensated by the higher export of foods – 60% increase YoY to 2.1 billion leva. In total, Bulgaria exported 3.3% more in terms of volume in 2019 to 57.9 billion leva and imported 2.5% less to 61.3 billion leva.

Foreign direct investments rose by 17% YoY to €630m according to the preliminary data by BNB. The equity investments couldn't overcome the significant outflow caused by the sale of SG Expressbank to DSK in the beginning of the year and finished with an outflow of €400m. Reinvested profit was €81m, only a quarter of the level in 2018, but still a decent achievement, given the large dividends paid by the local subsidiaries of foreign multinationals in the second quarter of the year. The foreign debt received by the Bulgarian companies was €950m. The biggest net inflow of investments in 2019 came from Netherlands (€404m), followed by UK (€174m) and Luxembourg (€142m).

For several years, the inflation was kept under control, but in 2019 a new 7-year record has been reached. The consumer price index rose to 3.8% in December on the back of the higher food prices and the service sector. Food prices jumped by 7% YoY as the African swine fever caused a 16% spike of the prices of meat, while the prices of fruits and vegetables were up by 11.3% and

6.6% respectively. Significant increases were also observed in the prices of entertainment (6.4%) and restaurants & hotels (5.4%) where the cause is largely attributed to the rising salary levels in the country. Only in communications, the prices were lower than in the previous year – by 3.1%.

The National Statistical Institute data shows that at the end of 2019 the unemployment rate has reached 4.1%, a new record low in the recent history of Bulgaria. Compared to the end of 2018, the number of unemployed fell by a tenth to fewer than 139 thousand people. Other records were also breached – the employment ratio in the age group 15-64 years is already at 70%, a 2.3 percentage points increase, compared with the previous year. The number of employed rose by 74 thousand to 3.22 million, reversing to some extent the negative trend from the last years. The unemployment rate is falling for every age group and although the youth unemployment (15-25 years of age) remains the highest, it is down to 9.1%, much better than the average for the EU countries. The number of the long-term (more than 2 years) unemployed is also down by less than 4 thousand people. The only negative development that can be seen in the data is that the number of unemployed with basic or no education is increasing and they are now almost 45% of all registered unemployed. The northwestern part of the country still has the highest unemployment rate of 10.8%, while in the southwest (which includes Sofia) the unemployment rate is a mere 2.4%.

The average salaries continued to grow by double digit in most of the sectors of the economy. Overall, the increase was by 12% to 1,349 leva. The highest paid sector remains ITC with an average salary of 3,250 leva (11% YoY increase), while the finance sector is second with 2,307 leva (13% YoY increase).

For a first time in the last four years, the budget finished on a deficit – it was 1.15 billion leva (0.97% of GDP). It came from a deficit of 1.04 billion leva from the national budget and a deficit of 110 million leva from the European funds. The single most important factor for the deficit was the deal for acquiring new fighter planes for the Bulgarian Air Force. The price of around 2.1 billion leva was paid in one installment in August and not over several years as initially planned. Nevertheless, the budget was running on a surplus by December until the Government approved additional spending including almost 500 million leva for the construction of Hemus motorway.

The budget revenues exceeded the forecast by 0.4% and reached 26 billion leva. The tax revenues rose by 8.7% (1.9 billion leva) with more than half of the increase coming from the VAT (1 billion leva, 10.2% YoY). Another 350 million leva came from the personal income taxes (9.6% YoY) and some 230 million leva from the corporate taxes. Within the year, the Government spent 26.9 billion leva, around 1 billion leva less than budgeted. In contrast to previous years, when the biggest saving came from the capital expenditures, this year more than a third of the saving came from the current spending and only a quarter – from the capital expenditures.

Despite the budget deficit, the state debt decreased by €170m to €12.04bn. In 2019 the Government issued securities for 967 million leva and made payments on maturing debt of 920 million leva. As a share of GDP the debt is 19.9% as of December 2019. The government plans to balance the budget in 2020 and new debt will be issued only to cover the maturing one.

In November 2019 the rating agency S&P raised the credit rating of the country by one notch to BBB both in local and foreign currency. The positive perspective was kept. The other two major agencies – Moody's and FITCH confirmed the rating of the country (at Baa2 and BBB respectively both for local and foreign currency), but raised the perspective from neutral to positive.

BULGARIAN BANKING SYSTEM

In many ways 2019 was a very good year for the Bulgarian banks. In terms of financial results the year was a repeat of the previous one, but in terms of new lending and deposit gathering several records have been broken.

With the economy booming, driven by the private consumption and the rising nominal and real income of the households, it is understandable that the demand for new loans remains high both in the retail and the wholesale segments. Total loans increased by 8.8% to 66.3 billion leva. In nominal terms the net increase was almost 5.4 billion leva which is the highest in the last 10 years and a tenth more than in 2018. Around 60% of the new lending was to businesses – loans to companies rose by 3.3 billion leva (8.4% YoY) to 42.1 billion leva. Lending to households was close to the level from the previous year – 2.1 billion leva increase (9.6% YoY) to 24.2 billion leva. Almost three-quarters of the new retail loans were taken for purchasing of residential real estate – a trend nurtured by the ongoing construction boom, the rising disposable income and the low interest rates.

Over the last year, the rate of the new mortgage loans in leva have fallen by another 0.25% to 3% - the lowest level seen in the recent history of the country. Similarly, the average lending rates of loans to companies fell below the 3% threshold, while only in the consumer lending segment the rates have kept their levels almost unchanged.

The deposit market broke several records last year. In nominal terms new deposits for almost 7.3 billion leva entered the banking system – by far the highest level in history. Both the deposits of nonfinancial companies and households grew by record rates – by 2.87 billion (11.4% YoY) and 4.2 billion (7.9% YoY) respectively. Total deposits reached 91.85 billion leva and the loans-to-deposits ratio remained unchanged at 72% keeping the pressure on the banks how to utilize the excess liquidity. The average rates declined by another 5 bps to 0.09% by the end of the year, while for the short-term deposits of companies in leva and euro they are already below 0.

The banks managed to squeeze some more savings from their interest expenses – they decreased by 11 million leva (3.8% YoY) to 286 million leva. BNB raised the charge on the excess reserves of the banks, mirroring the decision by ECB to reduce the interest rate on the deposit facility, and the banks didn't have many options but to try to transfer part of the burden to the biggest depositors. The banks paid 53 million leva to BNB (up from 50.7 million in 2018) and managed to collect 17.8 million leva from the clients (up from 10.2 million leva in 2018) in the form of negative rates. Interest income fell by a quarter of a point (8 million leva) to 3.03 billion leva, however, the interest income on the loans contracted by 1.7% (46.5 million leva) as the competition continued to erode the margins. Net fees and commission income rose by close to 4% (41 million leva) to 1.1 billion leva, but this positive effect was neutralized by the decrease in other non-core sources of income in the absence of one-off effects booked by some banks in 2018. Nevertheless, total income for the last year was practically at the same level as in 2018 – 4.23 billion leva.

Total expenses were up by 4.2% (81 million leva) to 2 billion leva, but half of the increase is coming from higher provisioning costs to be used in the forthcoming restructurings of some banks. The cost-to-income ratio went up 1.8% pp. for the year, but is still at the respectable level of 47.2%.

Impairment charges on loans were by 10% lower (47 million leva) than for the previous year. Net profit remained virtually unchanged – 1.68 billion leva. The profitability ratios declined to some extent, but remained solid – return on equity was 11.9% (around 0.8 pp decrease vs. 2018), while the return on assets was 1.5% (0.2 pp decrease vs. 2018).

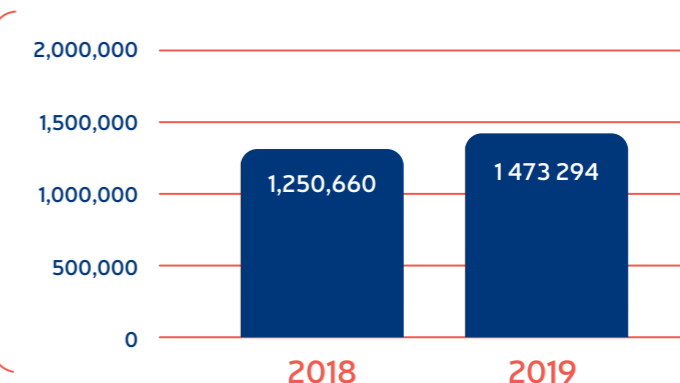
The banking system did another significant step in putting the past behind and reduce the stock of nonperforming exposures. In terms of volume the NPEs contracted by 10% (670 million leva) to 6.1 billion. The NPE ratio improved by almost 2 pp. and fell below 10% for the first time post crisis – 9.23% at the end of the year. However, there is still much more to be done since there are further 3.5 billion leva NPEs overdue more than 180 days, but potential future losses are manageable given the solid coverage ratio of almost 60%.

Given the rising capital requirements, it was important for the banks to maintain their capital buffers. Despite the fact that some banks paid significant dividends to their shareholders, the capital adequacy ratio stood at 20.2% at the end of the year, while the CET 1 ratio improved by 5 bps to 19.04%.

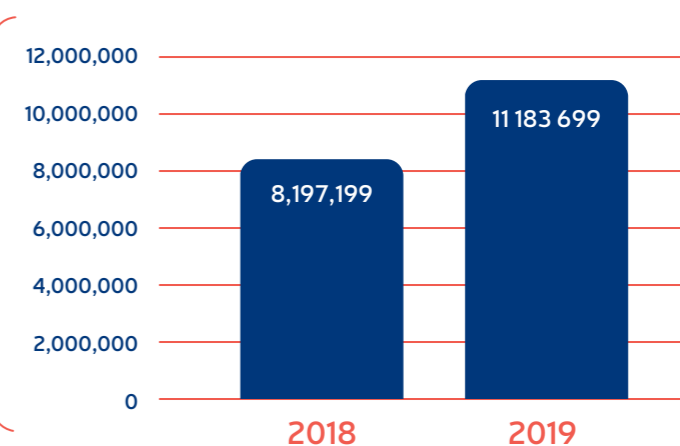
EUROBANK BULGARIA PERFORMANCE AND KEY INDICATORS

The past year was full of events and records for Eurobank Bulgaria. The Bank acquired the shares of Piraeus Bank Bulgaria ('PBB') on 12 June 2019 and in a record 5 months' period by November managed also to complete the legal and the operational merger.

SHAREHOLDERS' EQUITY



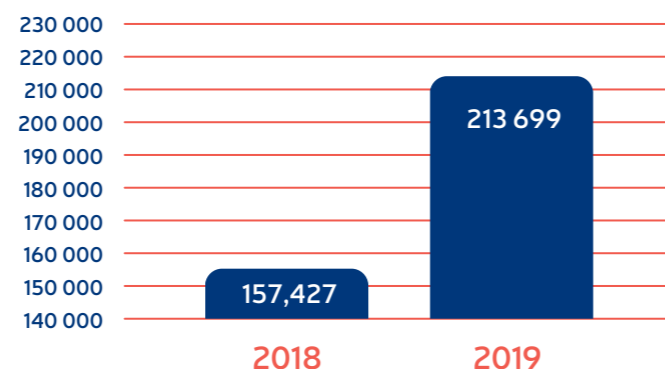
TOTAL ASSETS



Piraeus Bank Bulgaria complemented the already strong organic performance of Eurobank Bulgaria and by the end of the year the Bank became the third biggest in the country in terms of lending portfolio and deposits, with a market share of more than 10%.

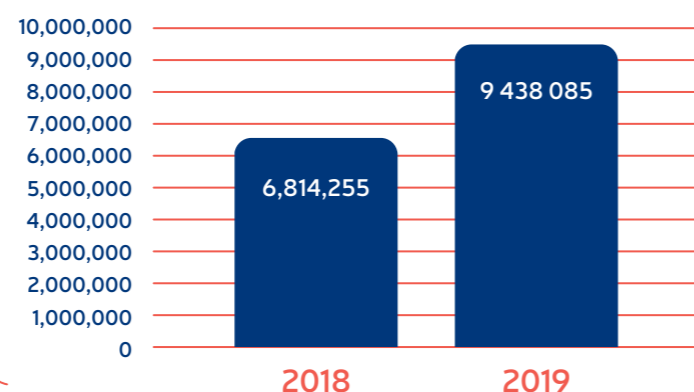
FINANCIAL AND BUSINESS REVIEW

NET PROFIT



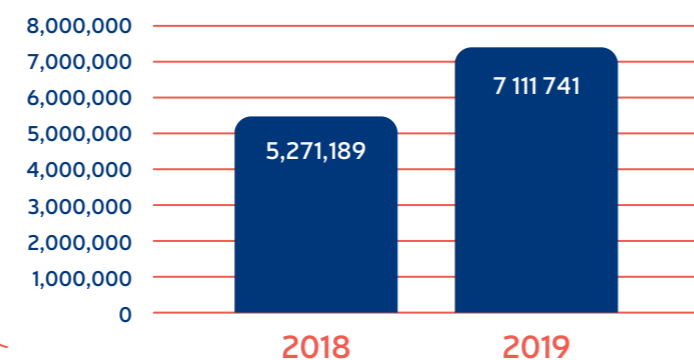
Net profit for the year was 213.7 million leva, an increase of more than 35%, compared to 2018, which helped improve the return on equity by more than 3 pp. to 15.78%, calculated as a ratio of the net profit over the average shareholder's equity for the last twelve months. Return on assets increased by 0.3 pp to 2.3%, the highest among the peer banks.

CLIENT DEPOSITS



Eurobank Bulgaria enjoyed a significant surge of its deposit base both from the merger as well as from new and existing clients. Total deposits from clients jumped by 39% to 9.44 billion leva, corresponding to a market share of 10.3% at the end of the year. The breakdown of the deposit base between retail and corporate clients remained unchanged. Retail deposits were 6.99 billion leva, while corporate deposits were 2.45 billion leva. The liquidity buffers expanded in line with the liquid funds remaining at almost 40% of the client deposit base. The net loans to deposits ratio stood at the comfortable 75%, ensuring that the bank has plenty of resources to be employed in the form of new lending or other interest earning assets. Eurobank Bulgaria continues to be exclusively funded by deposits which constitute more than 99% of all attracted funds. Average rates declined by another 4 bps throughout the year to just 0.08%.

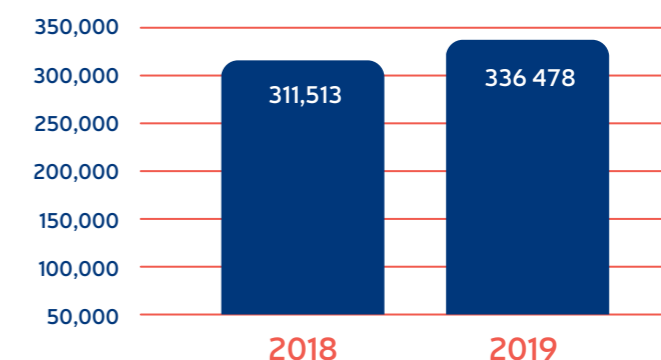
NET LOANS TO CUSTOMERS



Gross loans grew by a third for a year, reaching 7.42 billion leva, or 11.2% of the market. In nominal terms, the net increase was more than 1.8 billion leva, of which around 30% were organic growth and the rest - acquired portfolio from Piraeus Bank Bulgaria. Corporate loans were the biggest beneficiary – their volume expanded by a half to 3.53 billion leva. Consumer loans rose by 30% to 1.03 billion leva, while the mortgage loans by 20% to just short of 2.1 billion leva. Compared with the other segments, the loans to small businesses rose modestly by 8.6% (60 million leva) to 760 million leva, but almost entirely due to organic growth.

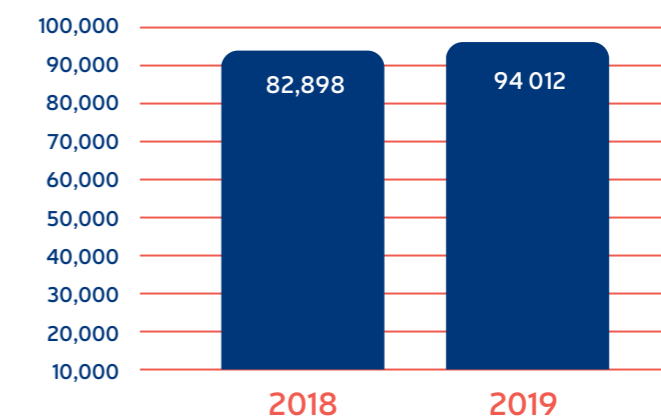
Interest income rose by 8% (24 million leva) to 347 million leva with the vast majority of the increase coming from the lending to clients and the placements with banks. Despite the massive increase in the deposit volume, the Bank managed to realize some more savings from the interest expenses which declined by 6% to 10.9 million leva.

NET INTEREST INCOME



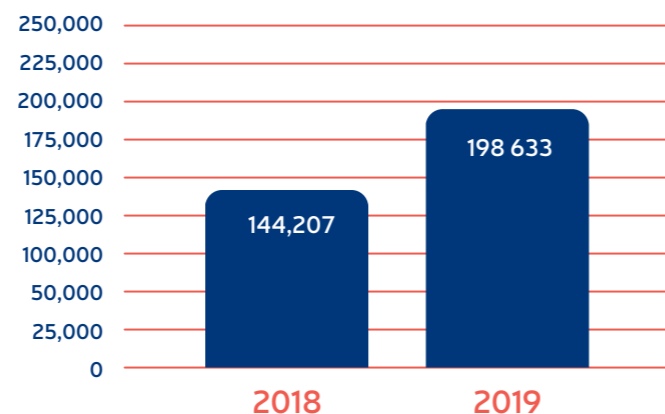
In nominal terms the saving equaled just 0.6 million leva, while the increase in the net interest income is 25 million leva reaching 336.5 million for the full year. Net interest margin continued its decline to a level of 3.7% as of year end as a result of the strong market pressure.

NET FEES AND COMMISSIONS

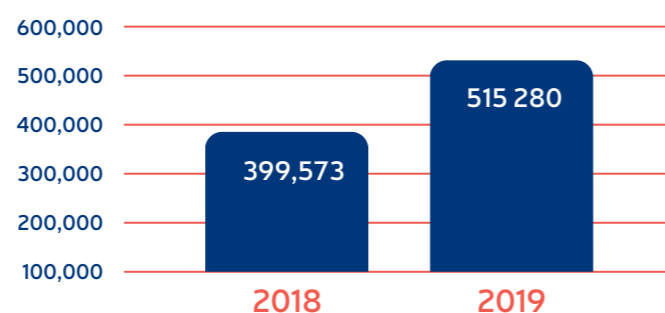


In a low interest rates' environment, the remaining sources of income are gaining importance. The net fees and commission income rose by 13% YoY (11.1 million leva) with more than half of the increase coming from sale of services and accounts maintenance. Total operating income reached 515.7 million leva, where around two-thirds of the 116 million leva yearly increase is due to the one-off bargain gain from PBB acquisition.

OPERATING EXPENSES

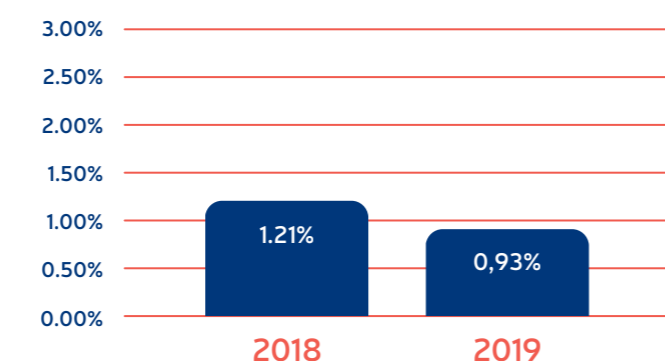


OPERATING INCOME

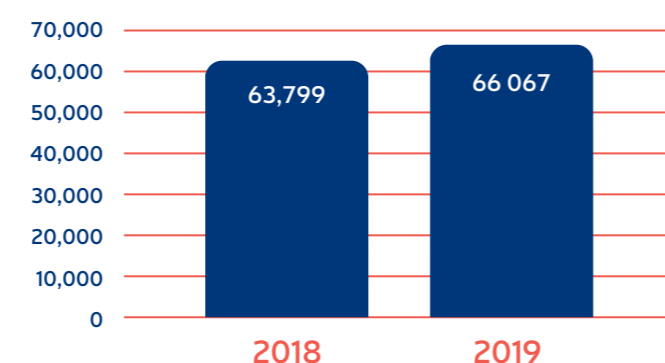


The acquisition and subsequent merger with PBB is also the main reason for the 54 million (38% YoY) increase of the expenses. Practically all expense items are higher, but the biggest contributors are restructuring and staff costs which made up over 90% of the increase. The cost-to-income ratio rose by 2.4 pp. to 38.5% almost unrivaled among the peer institutions. Expected credit losses in nominal terms were only slightly higher (2.7 million leva or 4% YoY), while the corresponding cost-of-risk ratio, measured as a ratio of the impairment losses charge over the average net loans, improved from 1.3% to 1.1%.

PROVISIONS/ LOANS

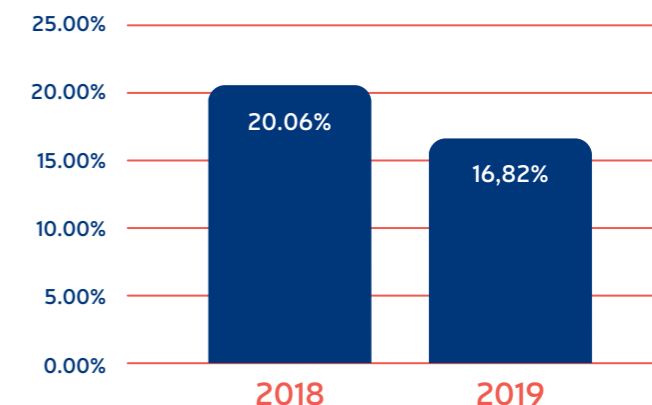


PROVISIONS FOR IMPAIRMENT



The nonperforming exposures (NPE) ratio contracted by 4 pp to 8% at the end of the year, almost 1 pp better than the market. The NPE coverage ratio is 1.2 pp lower than 2018, because of the 132 million leva written off loans in 2019 and the recognition of the acquired PBB NPEs at fair value, i.e. with nil ECL coverage.

CAD



The total capital adequacy and the CET1 ratios declined to 16.82% as Postbank's capital base had to cover for the substantially increased risk-weighted assets after the merger.

EVENTS AFTER THE BALANCE SHEET DATE

On 20.03.2020 a demerger of Eurobank Ergasias S.A. was approved through sector's hive down and establishment of a new company-credit institution under the corporate name Eurobank S.A, which has been registered on the same day in the General Commercial Registry.

As result of the Demerger:

- a) Eurobank Ergasias S.A. became the shareholder of the new company Eurobank S.A. by acquiring all its issued shares, and
- b) Eurobank S.A. substituted Eurobank Ergasias S.A., by way of universal succession, to all the transferred assets and liabilities, as set out in the transformation balance sheet of the hived down sector.

Following the completion of the Demerger, Eurobank Ergasias S.A. will cease to be a credit institution and maintains activities and assets and liabilities that are not related to main banking activities.

ERB Leasing Bulgaria merger within the Bank took place on 04 February 2020 after the receipt of the respective regulatory approvals. The leasing business of the company will continue within the operations of the Bank.

In light of the recent coronavirus outbreak coupled with increased economic uncertainty, the Bank monitors closely the developments in the Bulgarian and global macroeconomic environment taking proactive measures to prepare for various scenarios and ensure that the Bank remains resilient.

BUSINESS OVERVIEW

RETAIL BANKING SECTOR

BRANCH NETWORK DIVISION

During 2019 the Bank successfully accomplished the merger with Piraeus bank and continued with optimization of its branch network, mainly by relocation of branches to be positioned on places offering better business potential and cost improvement. After the merger Postbank possesses a very well developed, positioned and accessible Branch Network. The bank's 192 branches in 80 cities (67 locations in Sofia and 125 outside the capital) cover more than 75% of the population in the country. In 2019 the Bank continued with developing the new outlook for branches with innovative design with a look to the future.

During the year the Bank continued to emphasize on customer relationship building by improving, further developing and strengthen the quality of our customer service and the cross-sales ratio of the bank.

Digitalization of the branch network during the year was one of the main priorities of the Bank with clear vision for the future. In connection with digital transformation several projects were implemented or are in the process of development. In 2019, the installation of cash handling machines (TCR) in the branches continued, which shortens the time for customer service for cash transactions and improves cross-selling. ATMs with new deposit function had been placed in 28 branches and the total number reached 53 branches, improving the experience of customers who visit the branch to deposit cash in their accounts.

The second phase of the E-signing project, which was implemented in 2019, digitized more than 40 documents, reducing the use of paper, shortening customer service time and allowing customers to store their transaction documents digitally. All customer service employees were equipped with tablets for electronic signing of documents.

PERSONAL BANKING AND DEPOSITS DIVISION

Personal Banking as a segment defines customer service with a higher financial, social and professional status - managers of companies, entrepreneurs, freelancers. In 2018, customers in the segment are served by an average of 85 experts, positioning in 9 specialized centers in Sofia, Plovdiv, Varna and Burgas, as well as in other financial centers in the country.

The favorable economic environment, coupled with a diverse mix of credit and deposit products, and a high level of customer service, led to two-digit growth in sales of loans (22%) and credit cards (20%). The year 2018 was also successful in developing partnerships with third countries. The entire sales team of Personal Banking experts was actively engaged in sales of LV pension products, with the bank's plans for the business line to be developed on a larger scale, including all front office staff in the branch network. Traditionally, Postbank's strong partnership with Bulstrad Life has been built with the development and deployment of two new products - Savings Insurance My Plan and Everest Investment Product. Against the backdrop of low market levels of deposits of individuals, both products offer customers reasonable alternatives to investment decisions that add value over time.

In 2018, deposits of individuals grew by € 151 million, with a growth of 136% due to a diversified increase in current client accounts (new customers, new salary transfers and bundle programs) as well as deposit and savings products, of which Deposit 30 and Savings Account Mega are the most preferred.

SMALL BUSINESS BANKING DIVISION

The past 2018 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 a double increase in the volume of new business loans generated in this market segment.

In 2018, 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 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.

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

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

Postbank proved to be a trusted partner of the Small and Medium Business with the SME Initiative Program for Bulgaria. The program is a joint instrument of the European Commission and the European Investment Fund and the European Investment Bank. The agreements concluded with the National Guarantee Fund helps Small and Medium Business and farmers in the modernization of their holdings.

In 2018 in the field of lending, we successfully introduced specialized loan products supporting farmers, doctors, dentists, pharmacists and medical clinics.

The Bank further developed its strategy for better service quality with the opening of another ten specialized Small Business Banking centres. The first one was launched in 2014. A total of 20 centres gradually started operating by end-2018. Postbank's ambition by mid-2018 is to increase their number to 22, 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 and initiated sales initiatives and series of Open doors days to promote its new credit products. Furthermore, the traditional series of conferences, Postbank Meets Business, were successfully carried out in twelve cities in the country.

The Bank's 2019 priority will be to develop its business with medium-sized enterprises in order to increase their stability and boost their growth. In 2019, Postbank will focus its efforts on providing better and new digital services, and client-tailored offers to companies applying under European operational programs. 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.

STRATEGIC DEVELOPMENT INDIVIDUAL BANKING DIVISION

Household lending

In 2019 the trend of stable and improving economic environment in Bulgaria continued. There was a positive development in key macro indicators, such as GDP growth, retained favorable developments in the labor market, continued growth in labor income, together with a decrease in the unemployment rate amid a preserved household propensity to save. Bulgarian lending industry for households in the last years could be illustrated by two main characteristics – increasing customers' demand, resulting in overall portfolio growth as well as decreasing interest rates reaching to historically lowest levels.

In 2019 the growth rate of household credits continued to accelerate gradually reaching 10% growth in 2019 vs. 2018 as per the data of the Central Bank. Major factors behind rising volumes of consumer loans is the increased demand for financial resources by individuals for purchasing of goods and services, the low interest rates on loans and favorable macroeconomic environment. The surge in demand for housing loans in 2019 was mainly driven by households' need of funds for purchasing first or additional home, favorable housing market prospects and the increase of the labor income.

The year was dynamic for Postbank's household lending due to the active engagement of the business units in the merger process with Piraeus bank Bulgaria and the challenging task to boost Postbank's own new business at the same time. The onboarding of ex-Piraeus lending customers was carried out smoothly with strong focus on building sustainable relationship with them and maintaining high retention levels, despite the targeted refinancing efforts from the competition. In terms of new business, in 2019 household lending achieved its targets for new volumes growth and for introduction of innovative products and services, benefiting the customers and distinguishing the bank from the competition.

In order to strengthen the position of Postbank among the leaders in household lending, an innovative marketing platform "Now is the time" was developed and launched, using strategic insight to create integrated campaigns that make a difference – building brand awareness, engaging customers and driving sales results.

Consumer lending

Low unemployment rate and continued growth in both GDP and real disposable income are among the key drivers which had very positive impact on the consumer lending business during the year. The consumer demand remained very high and this in turn led to very dynamic, rapidly changing and aggressive competitive environment.

Postbank managed to keep its leading position on the market and continued its growth, increased the lending balances by 36% (incl. acquired ex-Piraeus Bank Bulgaria portfolio) compared to 2018, growing faster than the consumer lending market. This growth is a result from the significant increase in new production of consumer loans with 17% in 2019 vs. 2018, introduction of new and innovative products and services as well as the continued expansion of all sales channels. After the acquisition of Piraeus bank Bulgaria, the consumer portfolio of Postbank reached BGN 883 million in the end of 2019 compared to BGN 651 million as of December 31, 2018.

The primary focus remained attraction of good customers from mass and upper mass segment,

relying on distinctive advertising, customer-centric solutions and digitalized processes. In 2019 Postbank launched four marketing campaigns for consumer loans with a completely new concept and market positioning. Three entirely new key visions were developed throughout the year, aiming to cover three different customers' needs for financing – debt consolidation, home renovation and vacation – united by the strong message "Now is the time".

In 2019 huge efforts were also focused to expand the product portfolio in consumer lending by introduction of new propositions tailored to meet evolving customer needs. Aiming to ensure security and stability to customers, Postbank introduced a new offering with fixed interest rate during the first year of the loan tenor. In addition, entirely new niche loan product – Loan for Executive Education – was launched, targeting business professionals with good financial position and status, aiming to cover the need for financing of business education and career development. The existing packages services were upgraded as well to feature additional benefits such as free instant issuing of debit card added to the express package for consumer loans. The new propositions and customized offers to Premium line segment were part of the overall retail strategy to build the respective segment attracting high-network individuals and ensuring personalized approach and wide spectrum of value-added solutions.

In line with recent industry trends and aiming to ensure enhanced customer experience, in 2019 Postbank launched full end-to-end online consumer lending process that provides possibility for online application submission, processing, signing of the loan contract and disbursement without visiting bank's office.

Considering the need of easy access for financing, Postbank continued its strategy for further development and expansion of the alternative sales channels by enlargement of its specialized consumer lending centers "Momento" - 5 new centers were opened in key location in the biggest cities of the country, mainly in the largest shopping centers. The "Momento" centers are key brand of Postbank providing convenient customers' experience and express processing of an application within 40 minutes (for loan amount up to BGN 40 000).The customers can apply for consumer loan not only at the specialized centers and at the branch offices, but also after consultation with a mobile bank expert or by submitting an online credit application on the bank's website.

Thanks to its innovative products and sales channels, Postbank has strengthened its position as a leader in the area of consumer lending and has provided high quality service to its customers.

Mortgage lending

Because of the positive economic environment in the country, there was an uplift in the intentions for purchase of residential property by private individuals. The real estate market has also thrived during 2019. In the previous years, there was a limited number of newly constructed residential apartments, which are the main point of interest on the housing market. In reply of the growing demand, during 2019 a significant number of newly constructed properties were listed on the market, mainly in the biggest cities. The sales price of such properties has been increasing steadily in the last years, leading to elevated interest in mortgage financing.

The mortgage market in 2019 continued the trends for sustainable growth in volumes and for decrease in the average interest rates, reaching historically lowest levels. Postbank has succeeded to maintain and improve its position in top 3 on the Bulgarian mortgage lending market in the context of strong competition. Thanks to the focus on innovative lending products, combined

with high quality customer service and pro-active sales approach, Postbank's mortgage portfolio grew by 20% (incl. ex-Piraeus bank Bulgaria mortgage portfolio) compared to 2018, outrunning the mortgage market growth which is 15% on annual basis, as per official data from the Central Bank. After the acquisition of Piraeus Bank Bulgaria, the mortgage portfolio of Postbank reached BGN 2.09 billion in the end of 2019 compared to BGN 1.75 billion as of December 31, 2018. In terms of new mortgage production, Postbank has accomplished yet another successful year with 20% annual growth of new volumes. This result was achieved together with the successful acquisition process, which was carried out in parallel. The mortgage business line has managed to overachieve the targeted levels for new business, as well as to retain the mortgage customers from the acquired bank.

In view of the changing customer behavior, increasing expectations and transformation of business in general, Postbank embraces digitalization and has set it as a strategic priority for the next years. In 2019 one of the key tasks of Postbank's mortgage business line was further development of the digital sales channels, especially the enhancement of online consultation and online application services. A major step in this direction was rethinking customer experiences and developing of more efficient operating models for online application process, which should be both user friendly and compliant with the regulatory frame for mortgage financing. Customers benefit from increased transparency, a spectrum of personalized lending products and high-quality online interactions, such as online video consultation with mortgage lending expert. Thanks to the development of more efficient, customer-oriented digital consultation service, in 2019 the bank has achieved 270% annual growth in new mortgage business, generated by the digital sales channel. The priority for enhancement of the digital solutions will continue in 2020, aiming to attract more clients and open up new revenue channels, as well as to position Postbank as a trendsetter for digital mortgage business in Bulgaria.

While a seamless digital experience is highly important for Postbank as a modern financial institution, mortgage lending clients still appreciate professional face to face communication with their mortgage expert. Personal consultation and individual approach remain key to forming meaningful relationships and building loyalty. Aiming to get the right balance between delivering great digital experiences and being a trusted advisor, the Bank's physical branches continued to develop, as well. Postbank is the only bank in Bulgaria that has an extensive network of 29 Mortgage Lending centers, providing high quality professional services for all aspects related to mortgage lending. The efficiency of this specialized sales channel was improved and its share in the total new mortgage loans production reached 53% in 2019 vs. 45% in 2018.

In terms of marketing positioning and brand awareness Postbank's is among the top of mind banks for mortgage business. The marketing campaigns and PR initiatives held during 2019, supported new mortgage business generation and fostered the image of Postbank as customer oriented and reliable financial institution.

Cards business

In 2019 Postbank continued to grow its card business and offer customers highly competitive products and attractive acquisition and spend stimulation campaigns.

We have also managed to successfully acquire Piraeus bank Bulgaria' cards portfolio. We have achieved great results - more than 80% of the cards were received by customers.

In 2019 Postbank has entered into new partnership with Visa, including value-added services to

help drive the Bank's growth. The bank has also signed an agreement with Mastercard aiming to stimulate acquisition, activation and usage of Mastercard branded cards issued by the bank.

In October 2019 we were among the first banks on the market to implement 3DS 2.1 protocol for SCA (Strong customer authentication) for remote card transactions with cards issued by Postbank.

All implemented initiatives have led to 15% increase of total turnover with credit cards and 15% increase of the number of newly issued credit cards in 2019 vs. 2018 (in 2018 the increase has been 11% year on year). The number of debit cards has increased by 22% (5% increase of newly issued cards) and the turnover with debit cards has increased by 18% for the same period.

Transactional products for individual clients

Deposits and accounts

Regarding individual deposits, the Bank managed to make a net increase of EUR 827 million in 2019, whereas the amount includes also the acquired deposit portfolio of Piraeus Bank Bulgaria AD. The main focus was both retaining majority of the deposit clients of ex-Piraeus Bank Bulgaria AD and the increase of existing portfolio of Postbank by using a rightly set communication and product policy. The most preferred products were "FX Freedom" Term Deposit that provides possibility for currency conversion, Deposit 30, as well as saving account "Mega Plus". In our quest to offer the best modern and convenient product features to current and future customers, we created an opportunity to issue debit cards linked to saving account "Mega Plus".

Package Programs for daily banking

The flexible, modern and value-added financial solutions continued being the preferred option of our customers for daily transactional banking. The variety of package programs developed by the Bank provides optimal combination of financial services, adapting to the individual customers' needs. Customers' appreciation is proven by the number of package programs „My Banking“, „My Family“ and the Super @ccount which was increased in 2019 with 13% compared to 2018. Having a diversity of accounts shows that the Bank supports the increasing needs of its customers – transactional, lending or digital ones. Providing different advantages and additional benefits for payroll customers is additionally supporting the Bank's strategy for primary relationship development and maintenance.

Bancassurance and cross sales

The past 2019 was another successful year for bancassurance business – the positive trends continued, as for the loan-related insurances, as well for the so-called individual insurances. Our long term strategy for development of high class insurance products with the partnership of insurance market leaders and focused sales efforts, led to a stable insurance business income's increase with almost 40% compared to 2018.

The consumer loans related insurances' income has the highest increase of over 50% compared to 2018. This is due to the good results on the core business itself, the high level of protection of the insurance including the innovative service: "Second medical opinion" and the proper positioning, product and sales strategy.

For the individual insurances we managed to increase the income with almost 60% compared to

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last year, reassuring that their development is the right direction and brings advantages, as for the customer's relationship development, as well as from a financial perspective.

The individual property insurance Bonus home introduced in last months of 2018 continued to be a hit among customers in 2019, with more than 15 000 sales.

The sales of the other newly introduced product Savings insurance My plan are also gradually increasing, especially in the last quarter. We believe the product has higher potential and it will be further developed with the proper sales activities and efforts.

The partnership of the Bank with NN Bulgaria in the area of pension insurance proved its potential and in line with its strategy to further develop non-banking products and services, the Bank extended the involved sales channels. In 2019 the Individual banking and SBB experts become part of the initiative, as well as our innovative Momento centers network, giving the customers the advantages of convenient locations with extended working hours. This led to excellent sales results. Following the overall strategy for digitalization aiming to facilitate our customers in their pension insurance needs as well, we have taken several measures to innovate and improve the respective process and documentation flow that is going to bring results in Y2020. We believe this project will definitely increase the customers' satisfaction.

The achieved increase in income for a consecutive year, as well as the success of the newly introduced products are proving that the cross sales strategy and the value added products establishment is fulfilling and even overachieving the expectations in particular areas.

Contact center customers service

In Y2019 the number of incoming calls and inquiries via digital channels continue to grow compared to Y2018 and previous years. The number of accepted calls in the Contact Center of the Bank for the past year resulted in 19% increase compared to Y2018.



The significant growth of customers looking for alternative channels for support was mainly due to the merger of Piraeus bank which took place in H2 of the year. Main key points during that period leading to higher customer demand for support were the replacement of debit/credit cards, bank account numbers (IBAN). During the post-merger period in November and December the migration to the new online banking service was another main challenge for the new customers and respectively led to increase of the incoming calls.

In order to support our customers during the transition period of the merge new service – real time chat service with Postbank agent was launched in the beginning of Q3. The service was delivered through a specially developed mobile application – EVA Postbank.

Contact Center is considered to be one of the main channels for support of Postbank online banking customers. In Y2019 the customers who contacted the Contact Center with inquiries related to this service was 84K. It is important to be mentioned that in Q3 the Bank has implemented significant change in the payments confirmation following the changes related to PSD2. The widely used Qualified

Electronic Signature (QES) as a payment verification method was replaced with mobile token considered as more secured technology and is in compliance with all regulations.

Despite the huge volumes of incoming calls and the increased demand for support the Contact Center continued to provide high level of service to our customers.

Digital Banking

During 2018, the bank continued the journey towards digitalization and overall development of its' digital channels. The efforts and constant improvement in all services and functionalities led to excellent results in all lines. In terms of new internet banking (e-Postbank) registrations we managed to achieve 62% increase vs. 2017 (55k vs. 34k). As per the actual usage of the internet banking platform, the active customers of e-Postbank has increase with 17%, vs. the previous year (101k end of 2018 vs. 85k end of 2017), while the volume of transactions is with 20% more in comparison with 2017 (23.5 billion leva vs. 19.7 billion. leva). Another important KPI which is improving is the share of digital payments vs. transactions in a physical location in the bank. The customers are becoming more digitally oriented as the share of payments via the digital channels has reached 57% as of end of 2018, vs. 50% as of end of 2017.

The achieved results for the mobile application (m-Postbank), launched in May 2016, are more than promising, as it is becoming more and more the preferred channel for the everyday banking. The number of downloads is growing steadily, with an increase of 82% compared to 2017. The total number of users is also actively increasing with 63% vs. last year. In total number of transactions we are reporting +91% compared to previous year, while in terms of amount of transactions the growth is with 107%.

The online applications business is also having an excellent performance, as according to the results in 2018, the customers are more inclined to apply for the most common products of the bank online. The number of granted consumer loans requested via this channel has increased with 112%, while the growth in the granted amounts is 114%. The number of granted mortgage loans is 85% more vs. 2017, respectively the approved credit cards of customers who applied online is increasing with 46%.

All of the above was also strongly supported with numerous improvements, initiatives and new functionalities. Some of the major projects and functionalities which should be noted are: Online recovery of forgotten password for Internet banking, new functionality in internet and mobile banking for sending personal offers to the client, improvements in m-Postbank by adding login with fingerprint (iOS and Android) and face recognition login for iOS, possibility to apply online for a product via e-Postbank, change of transactional limits per account via e-Postbank, etc.

WHOLESALE BANKING SECTOR

For the Corporate Banking and Capital Markets Sector, the past 2019 has been again a very successful one. Some of our most important achievements are:

- Postbank has successfully finalized the merge with Piraeusbank Bulgaria AD, which led to an increase in the market share, the number of corporate clients as well as the number of the corporate business centers.
- The bank had repeatedly one of the largest growths in corporate lending volumes among all other banks operating in the country. We managed to reach the third place, outperforming UBB.
- Transactional banking and Factoring also reported record-high achievements in terms of volumes. For the seventh year in a row Eurobank Bulgaria AD is the leader in Bulgaria in terms of Factoring services.
- During the last nine years – 2011 – 2019 – Postbank has been awarded the prize of “Best custodian” on the market by the prestigious world magazines “Global Custodian” and “Global Investor Magazine”.

For a consecutive year, the Wholesale Banking Sector confirmed its position in front of clients and colleagues as a one providing flexible and market-oriented solutions with high quality and added value, aimed at covering the needs of the business in Bulgaria.

Corporate Banking Division

Postbank Corporate Banking Division finances companies with annual sales turnover above BGN 3 million. The Division incorporates the departments for large and medium-sized corporate clients, as well as project financing. We provide specialized business solutions directly from the HQ of the Bank or through our well-developed network of Corporate Business centers throughout the country. After merging Piraeusbank, the network of corporate business centers increased from 9 to 12, thus assuring optimal customer coverage. Corporate Banking Division services also international companies within the Corporate segment, which operate in Bulgaria, as well as their subsidiaries throughout the country.

During the year, Corporate Banking Division managed to distribute more than EUR 325 million new credits, EUR 207 million out of which were disbursed by “Large Corporate Clients” department to leading Bulgarian companies from different sectors of the economy and on a variety of projects, including financing of their working capital needs.

EUR 118 million have supported the business of middle-sized companies. With the assistance of colleagues from the “European Programs” section in 2019, credits were granted to many clients under joint programs and guarantee mechanisms of NGF, BDB, EIF, BEIA and others.

In 2019 “Project Financing” department provided credits for more than EUR 50 million. The experts of the department participated in some of the emblematic deals on project financing in Bulgaria.

Thanks to all these initiatives, as well as the high professionalism, motivation and proactive actions of its employees “Corporate Banking” Division managed to increase significantly both its corporate loans portfolio and its net profit after provisions with more than 45%.

Corporate Transactional Banking Division

Corporate Transactional Banking Division made a significant increase of the volumes of corporate clients' transactions in 2019 which contributed to the cost optimization, increase in service quality and raise of generated net financial result. The active communication and the professional expertise of the team were leading factors for the clients portfolio growth, as the acceleration of the number of the new customers is 40%. The attracted funds from medium and large sized enterprises rose with 43% compared to 2018.

One of the main elements in 2019 was the development and constant improvement of the traditional and remote transaction channels. Our Digital banking and service quality department is specialized in the management of projects from the digital strategy of the Bank. During the year it assured smooth implementation of various digital improvements in the internet and mobile banking functionalities, which contributed for cheaper, faster and more secure transactions. These developments determine the increased appetite of our clients for usage of alternative channels in daily banking. Those trends for digitalization and improvements continue in 2020 aiming Postbank to become the bank of preference and favorite partner at the dynamic banking market.

Factoring services of Postbank show steady development in the past years and in 2019 the annual turnover of this business again surpassed 1.5 bn. Euro. The driving force of these results is a highly qualified and motivated team that is ready to answer to the specific needs of our clients. In 2021 is planned brand new launch of a Client Portal which will allow our clients not only to get detailed reports but also to exchange Factoring documents with the bank in a highly secured environment. Thus shall increase additionally the quality of our services.

Capital Markets Division

In 2019, Capital markets achieved a consecutive year of outstanding performance affirming its leading position on Bulgarian financial market. New and innovative financial instruments were launched, attracting strong client interest. The acquisition of Piraeus Bank Bulgaria further widened the client base and the market share in the field of capital markets.

Asset and Liability Management

The effective management of the assets, liabilities and liquidity of the Bank resulted in substantial improvement of profitability, diversification of funding sources and optimization of liquidity buffers.

The acquisition of Piraeus Bank Bulgaria impacted positively total liquidity position that was managed successfully in order to generate profit maximization.

In 2019, Postbank continued its successful cooperation with local and international financial institutions for supporting the small and medium business. Guarantee programs affirmed themselves as a fundamental instrument for supporting the lending activity and accomplishing the business goals of the Bank with respect to lending growth.

Treasury Sales

With the successful acquisition of Piraeus Bank Bulgaria AD and widening of client base, Postbank continued to strengthen its leading positions both in FX operations and the offering of a variety of financial products.

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The volume of the attracted deposits from institutional customers rose by around 20%, thus increasing the Bank's market share in this segment, while at the same time marking a significant decrease in the cost of the attracted funds.

Over the past year, the Treasury Sales Department continued to expand the offering of structured products suited for the investment needs of large institutional clients.

Brokerage section contributed for the stable position of the Bank as one of the active participants at Bulgarian Stock Exchange (BSE) and as one of the leading investment intermediary amongst the banks. In addition, customers of the Brokerage section have access to financial instruments on foreign stock markets in 28 countries in Europe, Australia, Asia and North America.

Trading & Investment Banking

For a consecutive year Postbank remained among the main players on the bond market.

The department actively managed the size and risk of the bank's fixed income portfolio, seizing substantial trading gains and capitalizing interest income.

In 2019, the Bank managed to further strengthen flows from foreign government and corporate bonds, leveraging on trading lines and contacts with leading international banks and brokers. This contributed to a 44% growth in the securities portfolio for the year. In addition, the department prepared an investment strategy for diversification by regions and instruments to be implemented over the next year upon appropriate market conditions and better prices.

Custody

In 2019, the Bank affirmed its leading position as a depository bank for local mutual funds and remained on the first place among the leading banking institutions offering a full range of custodian services in accordance with international standards.

For 14 years Postbank has been offering safekeeping and administration of all types of local and foreign securities with access to more than 100 international markets. Postbank remained the exclusive custodian and security service agent to the biggest European Central Securities Depository Clearstream Banking Luxembourg.

Assets under Custody has raised double, as well as the income from the activity. The customer base grew by nearly 15%, attracting new institutional customers.

For the ninth consecutive year, Postbank won the award for "Best custodian" and "top rated" on the market from the reputable Global Custodian Magazine.

Private Banking and Mutual Funds Department

In 2019 Private Banking achieved a robust 84% annual growth in assets under management. Client base is additionally enlarged and successfully developed, thanks to financial solutions provided by teams of two leading financial institutions - Postbank Private Banking team along with Eurobank Private Bank Luxembourg S.A.

In terms of Mutual Funds business, 2019 was record high, with enhanced interest in low to medium risk profile mutual funds, due to their saving alternative status and attractive risk/return profile. Net assets

increased with 94% throughout of the year.

The department sustained good positioning among institutional clients with some new investments by pension funds and insurance companies.

Through the last year Private Banking and Mutual Funds Department expanded and enhanced the list of investments products related to mutual funds with key accent on automatic Investment Plan.

GOVERNMENT STRUCTURE AND RISK MANAGEMENT

MANAGEMENT AND REPRESENTATIVE BODIES

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

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

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

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

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

According to their legitimate rights the shareholders are permanently in possession of adequate

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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 by the Management Board ("MB") in accordance with the law, the Statute of the Bank, the Terms of Reference ("ToR") of the MB and other internal rules. The MB is a permanent collective body for management and representation of the Bank exercising its powers under the control of the SB and the General Meeting of Shareholders.

The MB may consist of 3 (three) to 9 (nine) members, elected by the SB, for a term of three (3) years. The composition of the MB as at 31 of December is consisted of 4 (four) members Mr. Ioannis Serafeimidis was released by the MB on 21 of March, 2019. Three of the MB members are appointed as Executive Directors.

The MB assigns, with the approval of the SB, the responsibilities for the management and the representation of the Bank to Executive Directors elected amongst Board's members. The authorization of the Executive Directors to represent the Bank can be withdrawn at any time by the MB, with the approval of the SB.

As at 31 of December, 2019 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 – Compliance Officer and Member of the Management Board.

Mr. Ioannis Serafeimidis was released as an Executive Director and Member of the Management Board on 21.03.2019.

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

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

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

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

Executive Committee

The Executive Committee ("ExCo") has the responsibility for the day-to-day management of the Bank, considers all issues pertaining to the current activities of the Bank and adopt decisions on them as to manage the implementation of the Bank's strategy, plan, direct and control the Bank's activities to ensure high level of performance and customer satisfaction, establish adequate systems of internal control and ensure they are properly maintained, consider the monthly financial reports before their submission to the MB.

The Committee consists of senior management personnel including Chief Executive Officer and other Executive Directors and all other key management functions covering all areas of the Bank's activities.

Asset and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has primary responsibility to advise the MB on the strategic management of the Bank's assets and liabilities with the aim to effectively manage the interest rate and liquidity risks of the Bank.

The Committee consists of key management personnel both from Eurobank Bulgaria AD and Eurobank Ergasias, including executive directors and key management functions representing all Retail and Wholesale business units.

ALCO has the following authority:

- To advise the MB on the strategic management of the assets and liabilities;
- To take all necessary decisions regarding the interest rate gap and liquidity management;
- To set the target parameters of potential external funding;
- To review/monitor/establish business initiatives and/or investments that affect the bank's market and liquidity risk profile.

Credit Committee

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

Supervisory Board

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

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

The members of the SB are obliged to perform their functions with duty of care and in the best interest of the Bank and its shareholders and to place the interest of the Bank and its clients above their own interest when performing their duties.

As at 31 December 2019, the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairman and Member of the Supervisory Board;
- Theodoros Karakasis – Deputy Chairman and Member of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- John David Butts – Member of the Supervisory Board.

Ms. Christina Theofilidi was released as a Member of the Supervisory Board on 06.02.2019.

The Supervisory Board ("SB") is a permanent collective body which exercises overall control over the business and financial activities of the Bank and also ensures the conformity of the Bank's activity with the applicable law, the Statute and the resolutions of the General Meeting of the Shareholders ("GMS") in the best interest of the Bank's shareholders, customers and employees. The SB may consist of 3 (three) to 7 (seven) members, elected by the GMS, for a term of three (3) years. The composition of the SB consists of 6 (six) members as at 31 December 2019, as one of the members Christina Theofilidi was released by the SB on 06.02.2019. The SB adopts its Terms of Reference "ToR" and appoints a Chairperson and a Deputy Chairperson from among its members.

The members of the SB are obliged to perform their functions with duty of care and in the best interest of the Bank and its shareholders and to place the interest of the Bank and its clients above their own interest when performing their duties.

The Chairman, the Deputy Chairman and one of the Members are independent members.

The following Committees have been established to assist the Supervisory Board in discharging its responsibilities:

Risk Committee

The SB has delegated to the Risk Committee ("RC") the role of approving all strategic risk management decisions (e.g. risk appetite, capital allocation, balance sheet profile and risk management structure). The RC is in charge of monitoring the quantitative and qualitative aspects of all market, credit, liquidity and operational risks.

The members of the RC are appointed by the SB. Currently, the Risk Committee consists of 4 (four) members.

The RC meets at least quarterly. The RC meeting is effective when 2/3 of its members are present. The Chairman must be one of the participating members, or in his absence he should appoint his replacement from the other Risk Committee members. In 2019 the RC held 4 (four) regular meetings and 5 (five) extraordinary meetings.

Audit Committee

The Audit Committee ("AC") is appointed by the General Meeting of Shareholders following a proposal by the SB and its purpose is to assist the SB in discharging its oversight responsibilities primarily relating to:

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

In doing so, it is the responsibility of the Audit Committee to provide for open communication channels between the SB, Management, Internal Audit and External Audit. The Audit Committee consists of three members who are appointed for a term of three years with the option to renew their appointment 5 (five) more times. In 2019 the Audit Committee members' term of office was renewed until June 2020.

The AC members possess the necessary skills and experience to carry out its duties.

The AC meets at least 4 (four) times per year or more frequently, as circumstances require, and reports on its activities and submits the minutes of its meetings to the Supervisory Board on a quarterly basis.

During 2019, the Audit Committee held 4 (four) regular and 6 (six) extraordinary meetings.

Remuneration Committee

The Remuneration Committee (“RemCo”) is a SB Committee which provides specialized and independent advice for matters relating to:

- remuneration policy and its implementation and for the incentives created while managing risks, capital and liquidity;
- safeguard the proper exercise of its duties and responsibilities, the efficient alignment of the personnel’s remuneration with the risks the Bank undertakes and manages the required alignment between the Eurobank Ergasias S.A. and the Bank;
- approve or propose for approval all remunerations of the key management personnel.

The Committee consists of 3 (three) to 5 (five) members. The members are appointed biennially by the Supervisory Board. In 2019, the Remuneration Committee consisted of four members. Meetings are held as required, but not less than twice a year.

Nomination Committee

The Nomination Committee (“NomCo”) has the responsibility to consider and make recommendations to the SB on matters related to the adequacy, efficiency and effectiveness of the Management Board, and to the appointment of key management personnel as per the provisions of Art. 73c, para 1 of the Credit Institutions Act and Art.12 of Ordinance № 20 of April 28, 2009, on the Issuance of Approvals to the Members of the Management Board (Board of Directors) of a Credit Institution and Requirements for Performing their Duties (issued by Bulgarian National Bank). The Committee shall meet not less than once a year at such times as the Committee deems appropriate and more frequently if required.

The Committee currently consists of 2 (two) members.

Shareholders’ Structure

As at 31 December, 2019 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

As part of the acquisition transaction of Piraeus Bank the Bank has acquired its own shares during the year in the amount of 457 shares.

RISK MANAGEMENT

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

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

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

- Strategic level – It encompasses risk management functions performed by the Supervisory Board, Management Board, and Risk Committee.
- Tactical level – It encompasses risk management functions performed by the and the Executive Committee.
- Operational (business line) level – It 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 Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making and to adopting the proper risk management and control mechanisms. The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken.

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

Credit Risk

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

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

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

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

Risk diversification: By diversifying its portfolio, the Bank hedges its dependence on specific

developments and thus reduces the credit risk. Should the Bank's portfolio fall below the desired degree of diversification, the Bank takes the respective suitable measures.

The Bank's Credit risk management is supported by stress tests for credit risk, carried out twice per 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 for the loan portfolio as well as the Bank.

Market Risk

Market Risk Department is the unit responsible for the independent identification, assessment, monitoring and control of the Bank's exposures to market risks, aiming to keep 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 2019, the process of measuring, monitoring, analyzing, reporting and managing the Bank's exposure to market risks continued to be 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 positions in foreign currencies 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 at year end, largely due to the floating rate nature of the majority of its assets and liabilities, the short re-pricing periods and remaining tenors and the active management of the interest rate gaps. A significant part of the interest rate risk arising from the fixed income sovereign bond portfolio is hedged through asset swaps. The Bank's proprietary trading 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 for 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).

During 2019 Postbank continued to maintain a very strong liquidity position. The continuously monitored internal liquidity ratios and liquidity buffers remained significantly above the required levels. The regulatory Liquidity Coverage Ratio (LCR), calculated in accordance with the requirements of Regulation (EU) No 575/2013, reached 564% as of 31 December 2019. 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 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; and improper employment practices and workplace safety.

Business units management manages the inherent operational risks within their area. An independent Operational Risk Function supports the implementation of an effective operational risk management framework and informs on the most significant operational risks exposure undertaken by the Bank; and Internal Audit function provides an independent evaluation and assurance on the effectiveness of the operational risk framework and its application.

The operational risk management is based on four distinct, even though interrelated and integrated, Operational Risk Programs, that are supported by dedicated IT applications:

- Operational Risk Events – includes capturing of all operational risk events with their impact, analysis of root causes, and mitigation measures;
- Key Operational Risk Indicators (KRIs) – KRIs with respective escalation thresholds have been implemented and monitored ;
- Risk & Control Self-Assessment (RCSA) - all units perform RCSAs every 12-18 month based on risk-assessed coverage planning;
- Operational Risk Scenario Analysis – estimates on rare, catastrophic events and their potential impact.

The Bank implemented business resiliency and continuity plans to ensure an ability to operate on an ongoing basis and limit losses in the event of business disruption. In addition, the Bank has appropriate insurances to protect itself and its assets from high severity risk impact.

Since its establishment in 2010, Operational Risk Committee of the Bank acts to provide oversight and management of the actual operational risk exposures as well as of the processes implemented to assess, monitor and mitigate operational risks in all business activities.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EUROBANK BULGARIA AD

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the separate financial statements of Eurobank Bulgaria AD (the Bank) as set out on pages 44 to 169, which comprise the separate statement of financial position as at 31 December 2019, and the separate income statement, separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' Responsibilities for the Audit of the Separate Financial Statements' section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Expected credit losses ("ECL") related to loans and advances to customers

As at 31 December 2019, the separate financial statements include:

- Gross loans and advances to customers of BGN 7,422,527 thousand (31 December 2018: BGN 5,608,184 thousand) and ECL allowance of BGN 310,786 thousand (31 December 2018 ECL allowance: BGN 336,995 thousand), as presented in note 18 to the separate financial statements;
- Impairment charge for credit losses recognized in the separate income statement of BGN 66,067 thousand (2018: BGN 63,799 thousand), as presented in note 12 to the separate financial statements;

Also refer to the following notes to the separate financial statements:

- 2.2.15 Impairment of financial assets
- 3.1 Impairment losses on loans and advances
- 5.2.1 Credit risk
- 5.2 Financial risk factors, Operational targets for Non-performing exposures (NPEs)

KEY AUDIT MATTER

As described in the notes to the separate financial statements, the expected credit losses have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Bank estimates the expected credit losses considering a stage allocation of the loan exposures.

We consider expected credit losses related to loans and advances to customers to be a key audit matter due to the magnitude of the related balances as well as due to the complex accounting requirements of IFRS 9 including assumptions made to assess and measure the ECL (e.g. macro-economic inputs, ECL risk modelling) which require significant judgement to determine the expected credit losses.

The Management Board is required to make judgements as to whether there is any significant increase in credit risk since initial recognition or any objective evidence of impairment, based on the assessment of the borrower's debt service and probability of default, and as to the future cash flows expected from the borrower (in case of stage 3 allocated exposures often based on the estimation of the fair value of the related collateral).

For stage 1 and stage 2 the expected credit losses are determined based on statistical models using the Bank's historical data and also forward-looking macroeconomic factors (e.g. gross domestic product growth), taking into account similar credit risk characteristics. The Management Board's key assumptions in this area are the probability of borrower's default and the assessment of the amount non-recoverable from the borrower in the event of a default („loss given default”).

Furthermore, as disclosed in the note 5.2 to the separate financial statements the Management Board is committed to achieve the Operational targets to reduce the volume of its Non-performing Exposures to BGN 388 million by 2022. Based on the Management Board's estimate the implementation of NPE reduction program resulted in an increase in the ECL at both 31 December 2018 and 31 December 2019 and related to additional losses expected on sales of such NPEs, as the Operational targets to reduce NPEs are planned to be achieved mainly through NPEs portfolio sales.

Given the limited number of observable sales transactions of non-performing loans in Bulgaria in previous periods estimation of such losses required significant degree of judgement from management.

HOW THIS KEY AUDIT MATTER WAS ADDRESSED IN OUR AUDIT

Our audit procedures performed where applicable with the assistance of our financial risk management specialists, included among others:

- Evaluating the appropriateness of the accounting policies and impairment methodology based on the requirements of the relevant accounting standard, our business understanding and industry

practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;

- Making relevant inquiries of the Bank's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL calculation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for data security, access and program change, assisted by our own Information Risk Management specialists;
- Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of default, appropriateness of the classification of exposures into performing and impaired, calculation of days past due stage allocation and calculation of the ECL;
- For a sample of loans and advances to customers selected based on specific items testing, critically assessing, by reference to the underlying documentation (updated financial indicators, repayment pattern, default events, forbore status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2019;
- For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation and collateral values;
- For non-performing exposures whose recovery is expected from sales evaluating the reasonableness of the Management Board's assumptions by reference to prices used by the Bank in similar market transactions;
- Obtaining the relevant macroeconomic forecasts of the Bank and critically assessing the Bank's assessment of the forward-looking information used in the calculation of the ECL. Independently assessing the information by means of corroborating inquiries of the Management Board and comparing factors used by the Bank to the publicly available information;
- For a sample of wholesale exposures from all stages, challenging key assumptions applied in the Bank's estimates of the future cash flows used in the impairment calculation: recovery period and collateral values, based on historical bank experience and industry practice, and, where relevant, with the assistance from our own valuation specialists;
- Recalculating the probability of default and loss given default for a selection of the Bank's portfolios, including testing the completeness and accuracy of underlying historical data used in the Bank's process of calculating the above parameters;
- Recalculating the expected credit losses as of 31 December 2019 based on the Bank's ECL model for a selection of the Bank's portfolios;
- Assessment of the adequacy of the related financial statements disclosures in respect of the ECL against financial reporting framework requirements.

Acquisition and subsequent merger with Pireus Bank Bulgaria AD

Refer to the following notes to the separate financial statements:

- 2.2.1 Shares in subsidiary undertakings
- 38 Acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria AD

KEY AUDIT MATTER

As disclosed in note 38 in November 2018, the Bank announced that it had concluded an agreement with Piraeus Bank S.A. for the acquisition of 99.98% of voting rights of Piraeus Bank Bulgaria AD ("PBB"), a subsidiary of Piraeus Bank S.A.

On 13 June 2019, the acquisition was concluded, following the receipt of the relevant regulatory approvals.

The final consideration for the acquisition amounted to BGN 150,956 thousand of which BGN 107,571 thousand has been settled in cash, BGN 4,354 thousand additional amount payable to the seller based on the finalized pre-closing audit of Net Asset Value (NAV) of PBB and BGN 39,031 thousand net present value of deferred consideration, payable within a four year period.

In September 2019, the General meeting of the shareholders of Eurobank Bulgaria AD approved the merger of the Bank with PBB. The merger was completed on 12 November 2019, following the receipt of the relevant regulatory approvals.

As a result of the acquisition the Bank recognised a gain on a bargain purchase in profit or loss at the amount of BGN 78,690 thousand. The bargain purchase arose as the transactions represented the last major milestone towards the conclusion of Piraeus Bank S.A.'s Restructuring Plan commitments, as agreed with the European Commission.

The accounting of this acquisition is complex due to the significant judgements and estimates that are required to determine the values of the consideration transferred and the identification and measurement of the fair value of the assets acquired and liabilities assumed.

Due to the size and complexity of the above transaction, we considered this to be a key audit matter.

HOW THIS KEY AUDIT MATTER WAS ADDRESSED IN OUR AUDIT

Our audit procedures performed, where applicable with the assistance of our valuation specialists, included among others:

- Challenging the valuations prepared by the Bank and the methodology used to identify the assets and liabilities acquired, in particular:
 - assessing the competence, capabilities and objectivity of the external expert appointed by the Management Board for determination of the fair value of the loan portfolio acquired;
 - critically reviewing the methodologies applied and key assumptions used by the external expert in valuing the loan portfolio, which included:
 - benchmarking of the discount rates used by the external expert to the interest rate statistics for new loans published by the Bulgarian National Bank ("BNB");

- evaluating the appropriateness of the discount rates applied by performing a benchmarking analysis of the stage 1, stage 2 and stage 3 fair value results to the impairment allowance coverage levels of a peer group (Tier 1 banks on the Bulgarian market, as defined by BNB);
- evaluating the reasonableness of the assumptions with reference to selling prices achieved by the Bank in market transactions for portfolios with similar characteristics.
- challenging the Bank's determination of the fair value of the remaining assets and liabilities having regard to the completeness of assets and liabilities identified and the reasonableness of underlying assumptions used in the valuation;
- testing on a sample basis the existence of acquired assets and liabilities, including obtaining evidence of legal title to land and buildings;
- checking the mathematical accuracy of the calculation performed in determination of the fair value of the assets and liabilities and recalculation of the resulting gain on bargain purchase.
- Making relevant inquiries of the Bank's Management, internal audit and information technology (IT) personnel in order to obtain an understanding of the process of IT migration of PBB data and IT applications used therein. Assessing and testing the Bank's IT controls over the reconciliation of data transferred from PBB general ledger to the Bank's general ledger;
- Testing the completeness of data transferred from PBB and accuracy of the accounting entries by checking the appropriateness of the mapping performed and reconciling the information before and after the IT migration;
- Evaluating the adequacy of the related financial statements disclosures, including disclosures of key assumptions and judgements against financial reporting framework requirements.

INFORMATION OTHER THAN THE SEPARATE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

Management is responsible for the other information. The other information comprises the separate annual activity report, the corporate governance statement and the non-financial declaration, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

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

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

We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate annual activity report, the corporate governance statement and the non-financial declaration, we have also performed the procedures added to those required under ISM in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

Opinion in connection with Art 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the separate annual activity report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- b) The separate annual activity report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- c) The corporate governance statement for the financial year for which the separate financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.
- d) The non-financial declaration referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE SEPARATE FINANCIAL STATEMENTS

Management is responsible for the preparation and presentation of the separate financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

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

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

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

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

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional reporting In relation to Ordinance No 38/2007 and No 58/2018 issued by the Financial Supervision Commission

Statement in relation to art. 33 of Ordinance No 38/2007 of the Financial Supervision Commission (FSC) on the requirements of the activity of the investment intermediaries and art.11 of Ordinance No 58/2018 of FSC on the requirements for protection of financial instruments and deposits of clients, for management of products and for granting or receiving remunerations, commissions, or other monetary or non-monetary benefits

Based on the audit procedures performed and the knowledge and understanding of the Bank's activity, in the course and context of our audit of the separate financial statements as a whole, we identified that the designed and implemented organization for safeguarding of customers' assets complies with the requirements of art. 28 - 31 of Ordinance No 38 and art. 3 - 10 of Ordinance No 58 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- KPMG Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as a statutory auditors of the separate financial statements of Eurobank Bulgaria AD for the year ended 31 December 2019 by the extraordinary general meeting of shareholders held on 27 December 2019 for a period of one year. The audit engagement was accepted by a Joint Audit Engagement Letter dated 30 December 2019.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2019 represents a second total uninterrupted statutory audit engagement for that entity carried out by KPMG Audit OOD and a second total uninterrupted statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art.60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.
- For the period to which our statutory audit refers, KPMG Audit OOD has provided to the Bank, in addition to the audit, the following services which have not been disclosed in the Bank's separate



annual activity report or separate financial statements:

- Audit of the special purpose financial information of Eurobank Bulgaria AD prepared as of and for the year ended 31 December 2019 in accordance with the accounting instructions of Eurobank Ergasias SA Group to the components subject to consolidation;
- For the period to which our statutory joint audit refers, a company from the Baker Tilly network provided permitted non-audit advisory services related to property portfolios of companies that are owned by the Bank's parent company- Eurobank Ergasias SA. These services have not been disclosed in the Bank's separate annual activity report or separate financial statements.

Sofia, 24 March 2020

For KPMG Audit OOD:

Ivan Andonov

Authorised representative

Ondrej Fikrle

Engagement partner

Sevdalina Dimova

Registered auditor, responsible for the audit

45/A Bulgaria Boulevard 5

Sofia 1404, Bulgaria

For Baker Tilly Klitou and Partners OOD:

Spyridon Gkrouits

Authorised representative

Galina Lokmadjieva

Registered auditor, responsible for the audit

Stara Planina Str., 5th floor

Sofia 1000, Bulgaria

ANNUAL DIRECTOR'S REPORT

ANNUAL ACTIVITY REPORT

The management presents the separate annual Activity report as of 31 December 2019.

BUSINESS DESCRIPTION

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

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

BUSINESS OVERVIEW

Macroeconomic Environment

The world economy left behind one of the worst years since the end of the financial crisis. Geopolitical tension, weak trade and investments added to a wave of natural disasters in various parts of the world and lowered the GDP growth rate from 3.7% in 2018 down to an estimated 2.9% in 2019. Fortunately, a more severe slowdown was avoided and by the end of the year there were already indications that the GDP prospects have been improving. The worst fears of a trade war between US and China have largely been avoided with the signing of "Phase one" deal between the two countries which helped deescalate the tension. The accommodative monetary policy and fiscal easing in some countries were also vital contributors for GDP support.

Prominent downside risks include the rising geopolitical tension in various parts of the world, further worsening of relations between United States and its trading partners and sharper-than-expected slowdown in the leading economies.

Furthermore, a major challenge for the international community is the recent coronavirus (Covid-19) outbreak, whose expansion worldwide is expected to cause a transitory negative impact in the global economy. The effects of the Covid-19 on the economic activity depend heavily on the range of its possible world expansion and the timing of its curbing. Countries worldwide, and Bulgaria among them, have already taken measures to contain the virus' expansion (e.g. travel restrictions, quarantine measures), strengthen the health systems' ability to deal with the outbreak and cushion the shock on both economic supply and demand via fiscal measures. In addition, certain Central Banks, including the US Fed, ECB, the Bank of England and many others have implemented measures of monetary accommodation. Conditional on the above, the baseline scenario is that the expansion of the virus globally and EU-wide will be contained and gradually slowed down (as is already the case in China) until the end of the first half of 2020. In such a case, the outbreak is expected to have a notable negative economic impact mainly on the first and, to a lesser extent on the second quarter of 2020. The European economies are expected

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to rebound in the second half of 2020. In the adverse scenario, however, a negative impact on certain industries of the global economy cannot be ruled out, such as a) lower tourism revenues, b) reductions in the demand for the manufacturing sector's product, as a result of the slowdown in key markets and c) disruptions in the manufacturing sector's supply chains. Continuation of the slowdown in economic activity could affect the non-performing exposures of the Bank and might put some pressure on the revenue side resulting from lower fees, commission and interest income. The Bank is continuously monitoring the developments on the Covid-19 front and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business plan for the quarters ahead.

In the medium term the high debt levels of some countries pose a risk once the environment of low interest rates comes to an end.

In the beginning of 2019, the EU economy was performing relatively well but started losing momentum as the year progressed. In the last quarter of the year some of the biggest European economies such as France and Italy even were contracting on a quarterly basis, while the German economy rose by the modest 0.2%. Nevertheless, there are signs that the downturn is nearing its bottom and the prospects for the next year look mildly optimistic. The growth in the Eurozone in the next 2 years is projected to remain at the same level as in 2019 – 1.2%, while for the EU as a whole it will be slightly higher - 1.4%. The European economy is in a good position to overcome the challenges in the next years helped by the increase of the real income, the supportive fiscal and monetary policies and solid construction sector. In January 2020 UK finally left the European Union and although many issues remain unresolved at least there is clarity about the trading relations until the end of the current year.

The past year also showed a shift towards a more relaxed monetary policy. In the United States the rates were cut three times in the second half of 2019 while in the Eurozone, the ECB announced a new stimulus measures in September 2019. These included 10 bps cut to the deposit rate to -0.5% and a new open-ended quantitative easing program of €20m per month. In addition, ECB will continue to reinvest the principal payments from all maturing securities. Thus for the foreseeable future the monetary policy will remain supportive, however, this is unlikely to be enough to propel the growth to the desired levels in the absence of a stronger fiscal stimulus which in the current environment seems highly unlikely.

Economic Situation in Bulgaria

The Bulgarian economy continues with its steady growth and for a fifth consecutive year the real growth rate is in excess of 3%. GDP grew by 3.4% in 2019 according to the preliminary data by NSI, an improvement, compared to the 3.1% in 2018.

The economy continues to be driven mainly by the consumption – in 2019 it was up by 5.7% in real terms. The data about the investments showed that they grew modestly by 2.2% which was rather unexpected since the construction sector is booming and some large infrastructure project have commenced. The contribution of the external sector was negative – exports increased by 1.9% in real terms, while imports grew by 2.4%.

The trade deficit shrank by more than 50% in 2019 to 3.37 billion leva due to the lower import of oil reported by the national statistics. According to the data, Bulgaria cut its import of mineral oils by almost 2.9 billion leva, but this number is expected to be revised as there is a delay in the reporting of the imports due to a change of the methodology. The imports from third countries was down by almost 12% with imports from Russia accounting for four-fifths of the decrease. As a result, Russia was replaced by Turkey as the biggest importer in Bulgaria outside the EU countries. In the same time, the

trade with the countries from the block was developing well – both the imports and the exports rose by 2.8%. Exports to countries outside the EU was affected by the decline in the export of mineral oils and ores, but this was compensated by the higher export of foods – 60% increase YoY to 2.1 billion leva. In total, Bulgaria exported 3.3% more in terms of volume in 2019 to 57.9 billion leva and imported 2.5% less to 61.3 billion leva.

Foreign direct investments rose by 17% YoY to €630m according to the preliminary data by BNB. The equity investments couldn't overcome the significant outflow caused by the sale of SG Expressbank to DSK in the beginning of the year and finished with an outflow of €400m. Reinvested profit was €81m, only a quarter of the level in 2018, but still a decent achievement, given the large dividends paid by the local subsidiaries of foreign multinationals in the second quarter of the year. The foreign debt received by the Bulgarian companies was €950m. The biggest net inflow of investments in 2019 came from Netherlands (€404m), followed by UK (€174m) and Luxembourg (€142m).

For several years, the inflation was kept under control, but in 2019 a new 7-year record has been reached. The consumer price index rose to 3.8% in December on the back of the higher food prices and the service sector. Food prices jumped by 7% YoY as the African swine fever caused a 16% spike of the prices of meat, while the prices of fruits and vegetables were up by 11.3% and 6.6% respectively. Significant increases were also observed in the prices of entertainment (6.4%) and restaurants & hotels (5.4%) where the cause is largely attributed to the rising salary levels in the country. Only in communications, the prices were lower than in the previous year – by 3.1%.

The National Statistical Institute data shows that at the end of 2019 the unemployment rate has reached 4.1%, a new record low in the recent history of Bulgaria. Compared to the end of 2018, the number of unemployed fell by a tenth to fewer than 139 thousand people. Other records were also breached – the employment ratio in the age group 15-64 years is already at 70%, a 2.3 percentage points increase, compared with the previous year. The number of employed rose by 74 thousand to 3.22 million, reversing to some extent the negative trend from the last years. The unemployment rate is falling for every age group and although the youth unemployment (15-25 years of age) remains the highest, it is down to 9.1%, much better than the average for the EU countries. The number of the long-term (more than 2 years) unemployed is also down by less than 4 thousand people. The only negative development that can be seen in the data is that the number of unemployed with basic or no education is increasing and they are now almost 45% of all registered unemployed. The northwestern part of the country still has the highest unemployment rate of 10.8%, while in the southwest (which includes Sofia) the unemployment rate is a mere 2.4%.

The average salaries continued to grow by double digit in most of the sectors of the economy. Overall, the increase was by 12% to 1,349 leva. The highest paid sector remains ITC with an average salary of 3,250 leva (11% YoY increase), while the finance sector is second with 2,307 leva (13% YoY increase).

For a first time in the last four years, the budget finished on a deficit – it was 1.15 billion leva (0.97% of GDP). It came from a deficit of 1.04 billion leva from the national budget and a deficit of 110 million leva from the European funds. The single most important factor for the deficit was the deal for acquiring new fighter planes for the Bulgarian Air Force. The price of around 2.1 billion leva was paid in one installment in August and not over several years as initially planned. Nevertheless, the budget was running on a surplus by December until the Government approved additional spending including almost 500 million leva for the construction of Hemus motorway.

The budget revenues exceeded the forecast by 0.4% and reached 26 billion leva. The tax revenues rose by 8.7% (1.9 billion leva) with more than half of the increase coming from the VAT (1 billion leva, 10.2%

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YoY). Another 350 million leva came from the personal income taxes (9.6% YoY) and some 230 million leva from the corporate taxes. Within the year, the Government spent 26.9 billion leva, around 1 billion leva less than budgeted. In contrast to previous years, when the biggest saving came from the capital expenditures, this year more than a third of the saving came from the current spending and only a quarter – from the capital expenditures.

Despite the budget deficit, the state debt decreased by €170m to €12.04bn. In 2019 the Government issued securities for 967 million leva and made payments on maturing debt of 920 million leva. As a share of GDP the debt is 19.9% as of December 2019. The government plans to balance the budget in 2020 and new debt will be issued only to cover the maturing one.

In November 2019 the rating agency S&P raised the credit rating of the country by one notch to BBB both in local and foreign currency. The positive perspective was kept. The other two major agencies – Moody's and FITCH confirmed the rating of the country (at Baa2 and BBB respectively both for local and foreign currency), but raised the perspective from neutral to positive.

Banking system

In many ways 2019 was a very good year for the Bulgarian banks. In terms of financial results the year was a repeat of the previous one, but in terms of new lending and deposit gathering several records have been broken.

With the economy booming, driven by the private consumption and the rising nominal and real income of the households, it is understandable that the demand for new loans remains high both in the retail and the wholesale segments. Total loans increased by 8.8% to 66.3 billion leva. In nominal terms the net increase was almost 5.4 billion leva which is the highest in the last 10 years and a tenth more than in 2018. Around 60% of the new lending was to businesses – loans to companies rose by 3.3 billion leva (8.4% YoY) to 42.1 billion leva. Lending to households was close to the level from the previous year – 2.1 billion leva increase (9.6% YoY) to 24.2 billion leva. Almost three-quarters of the new retail loans were taken for purchasing of residential real estate – a trend nurtured by the ongoing construction boom, the rising disposable income and the low interest rates.

Over the last year, the rate of the new mortgage loans in leva have fallen by another 0.25% to 3% - the lowest level seen in the recent history of the country. Similarly, the average lending rates of loans to companies fell below the 3% threshold, while only in the consumer lending segment the rates have kept their levels almost unchanged.

The deposit market broke several records last year. In nominal terms new deposits for almost 7.3 billion leva entered the banking system – by far the highest level in history. Both the deposits of nonfinancial companies and households grew by record rates – by 2.87 billion (11.4% YoY) and 4.2 billion (7.9% YoY) respectively. Total deposits reached 91.85 billion leva and the loans-to-deposits ratio remained unchanged at 72% keeping the pressure on the banks how to utilize the excess liquidity. The average rates declined by another 5 bps to 0.09% by the end of the year, while for the short-term deposits of companies in leva and euro they are already below 0.

The banks managed to squeeze some more savings from their interest expenses – they decreased by 11 million leva (3.8% YoY) to 286 million leva. BNB raised the charge on the excess reserves of the banks, mirroring the decision by ECB to reduce the interest rate on the deposit facility, and the banks didn't have many options but to try to transfer part of the burden to the biggest depositors. The banks paid 53 million leva to BNB (up from 50.7 million in 2018) and managed to collect 17.8 million leva from the

clients (up from 10.2 million leva in 2018) in the form of negative rates. Interest income fell by a quarter of a point (8 million leva) to 3.03 billion leva, however, the interest income on the loans contracted by 1.7% (46.5 million leva) as the competition continued to erode the margins. Net fees and commission income rose by close to 4% (41 million leva) to 1.1 billion leva, but this positive effect was neutralized by the decrease in other non-core sources of income in the absence of one-off effects booked by some banks in 2018. Nevertheless, total income for the last year was practically at the same level as in 2018 – 4.23 billion leva.

Total expenses were up by 4.2% (81 million leva) to 2 billion leva, but half of the increase is coming from higher provisioning costs to be used in the forthcoming restructurings of some banks. The cost-to-income ratio went up 1.8% pp. for the year, but is still at the respectable level of 47.2%. Impairment charges on loans were by 10% lower (47 million leva) than for the previous year. Net profit remained virtually unchanged – 1.68 billion leva. The profitability ratios declined to some extent, but remained solid – return on equity was 11.9% (around 0.8 pp decrease vs. 2018), while the return on assets was 1.5% (0.2 pp decrease vs. 2018).

The banking system did another significant step in putting the past behind and reduce the stock of nonperforming exposures. In terms of volume the NPEs contracted by 10% (670 million leva) to 6.1 billion. The NPE ratio improved by almost 2 pp. and fell below 10% for the first time post crisis – 9.23% at the end of the year. However, there is still much more to be done since there are further 3.5 billion leva NPEs overdue more than 180 days, but potential future losses are manageable given the solid coverage ratio of almost 60%.

Given the rising capital requirements, it was important for the banks to maintain their capital buffers. Despite the fact that some banks paid significant dividends to their shareholders, the capital adequacy ratio stood at 20.2% at the end of the year, while the CET 1 ratio improved by 5 bps to 19.04%.

Major Changes in The Regulatory Environment

In March 2019, BNB announced that it will increase the level of the countercyclical capital buffer rate, applicable to credit risk exposures in Bulgaria to 1.0% in effect from 1 April 2020. In December 2019, the Governing Council of BNB took another decision to increase the level of the countercyclical capital buffer applicable to credit risk exposures in Bulgaria to 1.5% in effect from 1 January 2021. BNB noted that the credit-to-GDP ratio corresponds to zero value of the reference indicators for the countercyclical buffer, but in the same time it wants to continue introducing measures to mitigate systemic risks and imbalances in the banking sector.

In May 2019 the Governing Council adopted a decision to apply from 1 January 2020 the Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) issued by the European Banking Authority on 17 December 2018.

On 19 March 2020 BNB announced that the increase of the countercyclical capital buffer levels planned for 2020 and 2021 are revoked in order to preserve the resilience and flexibility of the banking system and reduce the negative effects resulting from the restrictions in view of the Covid 19 pandemic.

In May 2019 the Governing Council adopted a decision to apply from 30 June 2019 of the Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) issued by the European Banking Authority on 31 October 2018.

In 2019 the Bulgarian Parliament adopted changes in the Law on Credit Institutions, Law on the Bulgarian

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National Bank and the Law on the Recovery and Resolution of Credit Institutions and Investment Firms which will come into force from the day of enforcement of the ECB decision on close cooperation under Article 7 of Council Regulation (EU) No 1024/2013 of 15 October 2013.

Eurobank Bulgaria performance and key indicators

The past year was full of events and records for Eurobank Bulgaria. The Bank acquired the shares of Piraeus Bank Bulgaria ('PBB') on 12 June 2019 and in a record 5 months' period by November managed also to complete the legal and the operational merger. Piraeus Bank Bulgaria complemented the already strong organic performance of Eurobank Bulgaria and by the end of the year the Bank became the third biggest in the country in terms of lending portfolio and deposits, with a market share of more than 10%.

Net profit for the year was 213.7 million leva, an increase of more than 35%, compared to 2018, which helped improve the return on equity by more than 3 pp. to 15.78%, calculated as a ratio of the net profit over the average shareholder's equity for the last twelve months. Return on assets increased by 0.3 pp to 2.3%, the highest among the peer banks.

Eurobank Bulgaria enjoyed a significant surge of its deposit base both from the merger as well as from new and existing clients. Total deposits from clients jumped by 39% to 9.44 billion leva, corresponding to a market share of 10.3% at the end of the year. The breakdown of the deposit base between retail and corporate clients remained unchanged. Retail deposits were 6.99 billion leva, while corporate deposits were 2.45 billion leva. The liquidity buffers expanded in line with the liquid funds remaining at almost 40% of the client deposit base. The net loans to deposits ratio stood at the comfortable 75%, ensuring that the bank has plenty of resources to be employed in the form of new lending or other interest earning assets. Eurobank Bulgaria continues to be exclusively funded by deposits which constitute more than 99% of all attracted funds. Average rates declined by another 4 bps throughout the year to just 0.08%.

Gross loans grew by a third for a year, reaching 7.42 billion leva, or 11.2% of the market. In nominal terms, the net increase was more than 1.8 billion leva, of which around 30% were organic growth and the rest - acquired portfolio from Piraeus Bank Bulgaria. Corporate loans were the biggest beneficiary - their volume expanded by a half to 3.53 billion leva. Consumer loans rose by 30% to 1.03 billion leva, while the mortgage loans by 20% to just short of 2.1 billion leva. Compared with the other segments, the loans to small businesses rose modestly by 8.6% (60 million leva) to 760 million leva, but almost entirely due to organic growth.

Interest income rose by 8% (24 million leva) to 347 million leva with the vast majority of the increase coming from the lending to clients and the placements with banks. Despite the massive increase in the deposit volume, the Bank managed to realize some more savings from the interest expenses which declined by 6% to 10.9 million leva. In nominal terms the saving equaled just 0.6 million leva, while the increase in the net interest income is 25 million leva reaching 336.5 million for the full year. Net interest margin continued its decline to a level of 3.7% as of year end as a result of the strong market pressure.

In a low interest rates' environment, the remaining sources of income are gaining importance. The net fees and commission income rose by 13% YoY (11.1 million leva) with more than half of the increase coming from sale of services and accounts maintenance. Total operating income reached 515.7 million leva, where around two-thirds of the 116 million leva yearly increase is due to the one-off bargain gain from PBB acquisition.

The acquisition and subsequent merger with PBB is also the main reason for the 54 million (38% YoY) increase of the expenses. Practically all expense items are higher, but the biggest contributors are

restructuring and staff costs which made up over 90% of the increase. The cost-to-income ratio rose by 2.4 pp. to 38.5% almost unrivaled among the peer institutions. Expected credit losses in nominal terms were only slightly higher (2.7 million leva or 4% YoY), while the corresponding cost-of-risk ratio, measured as a ratio of the impairment losses charge over the average net loans, improved from 1.3% to 1.1%.

The nonperforming exposures (NPE) ratio contracted by 4 pp to 8% at the end of the year, almost 1 pp better than the market. The NPE coverage ratio is 1.2 pp lower than 2018, because of the 132 million leva written off loans in 2019 and the recognition of the acquired PBB NPEs at fair value, i.e. with nil ECL coverage. The total capital adequacy and the CET1 ratios declined to 16.82% as Postbank's capital base had to cover for the substantially increased risk-weighted assets after the merger.

Events after the balance sheet date

On 20.03.2020 a demerger of Eurobank Ergasias S.A. was approved through sector's hive down and establishment of a new company-credit institution under the corporate name Eurobank S.A, which has been registered on the same day in the General Commercial Registry.

As result of the Demerger:

- a) Eurobank Ergasias S.A. became the shareholder of the new company Eurobank S.A. by acquiring all its issued shares, and
- b) Eurobank S.A. substituted Eurobank Ergasias S.A., by way of universal succession, to all the transferred assets and liabilities, as set out in the transformation balance sheet of the hived down sector.

Following the completion of the Demerger, Eurobank Ergasias S.A. will cease to be a credit institution and maintains activities and assets and liabilities that are not related to main banking activities.

ERB Leasing Bulgaria merger within the Bank took place on 04 February 2020 after the receipt of the respective regulatory approvals. The leasing business of the company will continue within the operations of the Bank.

In light of the recent coronavirus outbreak coupled with increased economic uncertainty, the Bank monitors closely the developments in the Bulgarian and global macroeconomic environment taking proactive measures to prepare for various scenarios and ensure that the Bank remains resilient.

RISK MANAGEMENT

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

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

A consistent and effective framework for risk identification, assessment, monitoring and control has

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

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

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

The Bank's risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks.

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

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

Credit Risk

Credit risk is the risk related to the inability or unwillingness of a customer or a counterparty to fully meet the commitments made to the Bank in relation to lending, trading, settlement, hedging or other transactions within the agreed time period or schedule.

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

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

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

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

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

Market risk

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

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

The market risk control and supervision framework set by the Bank aims to protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business as well as to develop objective, transparent and consistent market risk information as a basis for sound decision making.

The Market Risk Control function helps to align the Bank's organizational structure and management processes with best international banking practice and set standards for controlling market risks and to link business strategy and operations with the objectives for risk control and supervision.

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

Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

The market risk measurement system measures risk arising from exposure to the following specific market risk factors:

a) Interest Rate Risk

Banking is related to maintenance of positions sensitive to the fluctuations in the prevailing levels of market interest rates, which influences the Bank's financial position and cash flow dynamics. Interest

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rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk, option risk, volatility risk. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary re-pricing on a monthly basis.

b) Foreign exchange risk

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

c) Equity price risk

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

Liquidity risk

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

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

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

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

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

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

Market Risk Department is responsible to regularly produce and distribute the internally adopted

liquidity gap reports with embedded liquidity ratios and is the unit that exercises an independent liquidity risk control function, escalating any breaches of limits to the respective management bodies.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

Postbank, legally named Eurobank Bulgaria AD, is the fourth largest bank in Bulgaria with a broad branch network throughout the country and a significant client base of citizens, companies and institutions. The Bank has a nearly 30-year presence among the leaders in the banking market in Bulgaria. It has been a leading factor in innovation and trends in the banking sector in the country in the recent years and has been awarded many times for its innovations. The financial institution holds a strategic place in retail and corporate banking in Bulgaria.

On 13 June 2019 the acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D. was completed with the acquisition of 99.9819% of PBB shares all of which with voting rights, after the respective regulatory approvals were obtained as follows - the Governing Council of the Bulgarian National Bank on 28 March 2019, the Commission for Protection of Competition on 9 May 2019 and HFSF on 12 June 2019. This is a key event in the Eurobank Bulgaria strategy to expand and further strengthen its position in the Bulgarian banking sector.

In November 2019, Postbank successfully completed the merger of Piraeus Bank Bulgaria, which is another step in consolidating its position as a systemic bank, expanding its client base and developing its team. The operational merge was done for the record time of five months. As a result of the merge, Postbank acquired a market share of more than 10% in terms of assets, loans and deposits. The united bank has an even wider branch network of more than 200 branches across the country and continues to offer innovative products and services, high quality of client services and flexible financial solutions for individual and business customers.

For the successful completion of the merger with Piraeus Bank Bulgaria, winning the shareholders' trust and the proven ability to lead a team, Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board of Postbank, was honored with the special Banker of the Year 2019 Award in the 27th edition of Bank of the Year awards, organized by the Bank of the Year Association. While the Bank was honored with the Transaction of the Year Award.

As a leading employer, which evaluates its success through the satisfaction of its employees, Postbank has always strived to develop the skills of its team members and to provide an environment for unlocking their potential. Due to its active policy in this direction, in early February 2020 Postbank received two golden awards, from the annual Employer branding awards organized by b2b Media, for its 2019 overall project aimed at the development and motivation of the company's employees, as well as for its innovative approach to talent management. The focus of the Bank in this direction are activities for optimization of the working environment, continuing professional development and training, involvement of employees in corporate social responsibility projects with high added value for the society.

The Bank also received a prize for Leadership in the Banking Sector, Technology Development and Human Resources from the 5th annual Company of the Year Awards, organized by Bulgaria Business Review Group. They distinguish the best companies in different industries by publicizing their achievements and focusing public attention on their innovative and successful management models.

The Bank is one of the leaders in the market of credit and debit cards, mortgage and consumer lending, savings products, as well as in terms of products for corporate clients - from small companies to large

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international companies with presence in the country. The financial institution has one of the most well-developed branch networks and modern alternative banking channels, paying special attention to the quality of customer service.

In June 2019, the Bulgarian Credit Rating Agency (BACR) confirmed the long-term credit rating BBB-, a stable outlook.

In 2019, in order to meet the expectations of modern consumers, the Bank expanded its Momento's innovative consumer lending brand and opened five new centers. The modern sites, in accordance with the brand concept, are situated again at the top locations in some of the most visited shopping areas in Burgas, Varna, Plovdiv and Sofia. These locations work every day with extended working hours. The innovative brand received the Favorite Brand Award for Bulgarians in the Financial Institutions category on the 11th edition of the ranking, based solely on consumer attitudes.

In 2019, Postbank opened three pilot new generation digital offices, launching a process of complete transformation of its even wider branch network. The new offices concept is consistent with the Bank's intention to provide excellent consumer experience as it combines self-service areas in which the customers can carry out various operations quickly and easily, and a more open, comfortable and modern interior.

At the end of 2019, Postbank received a prestigious international award for providing an Excellence in Customer Centricity or Customer experience. The Bank is among the winners in the 12 categories of the contest The Retail Banking: Europe 2019 Awards, organized by Europe's leading retail banking magazine Retail Banker International. Other contestants and winners include the names of some of Europe's largest, most stable and well-established banks - Santander, Dankse Bank, Nordea, BBVA, Raiffeisen bank, OTP. Postbank's recognition is for its high results and optimization of work thanks to the innovative way of verifying payment documents with a digital signature. As a modern bank, operating with respect for environmental protection and its clients, the financial institution is among the first on the Bulgarian market, which introduces the signing of digital signature documents throughout its branch network.

For second year in a row, Postbank has been recognized as the Best in retail banking in Bulgaria. The award is from the prestigious World Finance Banking Awards 2019, organized by World Finance Magazine, an authoritative publication that monitors and analyzes the financial industry, international business and economy. The recognition is for Postbank's innovative and sustainable retail banking model, its advanced products and services, its extensive branch network across the country, alternative channels of communication and the numerous opportunities for professional financial advice from its experts.

The world leader in payment services Western Union honors Postbank with the Special Award for Sustainable Business Growth 2018. The Bank was honored for the development of payment services in the country among all financial institutions with which Western Union partners in Bulgaria. The award is given for the professional approach, knowledge, hard work and overall contribution of Postbank to business development in Bulgaria, according to Western Union Regional Business Team Bulgaria.

For the eighth consecutive year, Postbank has been named the top trustee in Bulgaria by Global Custodian Magazine, the world's most prestigious trust services magazine, known for its annual surveys, which are considered a benchmark for the sector. The Bank again has the highest numerical ratings in all categories.

It was the fifth time Postbank received high honors from European Bank for Reconstruction and Development (EBRD) - Award for Most Active Bank in Bulgaria in Trade Financing 2018 (Most Active Issuing Bank and Trade Finance for 2018). The prize was presented at an official ceremony held in Sarajevo, Bosnia and Herzegovina. The Bank achieved a total volume of transactions under the program, amounting to over EUR 17 million. With the help of the EBRD's Trade Finance Program, the institution actively supports foreign trade activities of Bulgarian companies by providing them a full range of products that minimize the risks as well

as provide opportunities to develop foreign markets. Postbank traditionally reports excellent results in the factoring services and for a consecutive year it is a leader in the factoring market in Bulgaria - with over 45% market share of the total volume of factoring business and 60% share of export factoring.

Postbank was also the only financial institution - a finalist from Bulgaria, in the 12th edition of the International Business Best Practices and Excellence Competition - European Business Awards, created to highlight best practices and promote innovation and entrepreneurship spirit among the business community in Europe.

In 2019, the financial institution, which has traditionally been a leading partner of the business in the country, supported the unique Dare to Scale pilot growth program - the first of its kind in Bulgaria aimed at businesses with a potential for extensive growth. Ten native companies were selected in the project of the Bulgarian office of the global network Endeavor. Selected entrepreneurs underwent training and interactive sessions led by successful practitioners and leaders from the Endeavor network, including the well-known serial entrepreneur Vasil Terziev, Chairman of the Board of Endeavor Bulgaria and co-founder of Telerik, Telerik Academy; Svetozar Georgiev, the Incobator Campus X; Romyana Ivanova, Head of the Small Business Banking Division at Postbank, as well as many others. The training covered the main areas that every successful company needs - organization management, marketing, sales, financial planning and raising capital.

The Dare to Scale growth program will continue in the upcoming years to encourage the growth of even more new local businesses.

By participating in the Dare to Scale program, Postbank is actively contributing to the development of both promising scale-up companies and the business environment in our country. This is another expression of its strong intent to foster bold ideas, support innovation and competitiveness for businesses and the economy. Endeavor's Dare to Scale program, with Postbank being a main partner, is the winner of the CES Awards Bulgaria 2019 prestigious Best Accelerator Program category.

During the year, Postbank continued to organize a series of specialized conferences in support of business in the country, entitled "Postbank Meets the Business". More than 300 entrepreneurs and representatives of small and medium-sized enterprises participated in the event, which took place in 2019 in Sofia. In an open discussion the Bank representatives consulted the participants in the meeting on the processes of corporate funding and advised them on the successful implementation of investment projects.

In 2019, the financial institution was the major partner of a series of business breakfasts, part of the Imoti.net Annual Awards project. During the meetings with representatives of the real estate business, the Bank experts discussed the market trends and being leaders in the lending sector, presented their analysis of the market, the profile of consumers and the most current conditions for mortgage loans by Postbank.

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For the fifth consecutive year in 2019, the Bank supported the national contest of the 24 Chasa Daily – The Big Small, because it attaches great importance to the development of small businesses.

Postbank supported the initiative of the CAUSE Foundation, Entrepreneurship Exchange 2019, as part of its focused efforts to develop the entrepreneurial ecosystem in our country. A record number of participants from all over the country - 40, participated in this edition of the event, which is establishing itself as a working platform for a meeting between entrepreneurs and potential investors.

Through its partnership with Eurobank Private Bank Luxembourg and its 100% specialized and highly customized private banking services, Postbank continues to develop its modern Private Banking Center. The Bank's clients can benefit from a range of investment services in trust management, asset management and business consulting.

NEW PRODUCTS

Postbank introduced more innovative products and services in 2019, focusing on offering convenience and added value benefits to customers.

EVA Postbank is the first mobile banking application in Bulgaria with a live chat feature, created specifically for the acquisition of Piraeus Bank Bulgaria, for the benefit of both Piraeus

Bank clients and current Postbank clients in the process of acquisition. The modern interactive application, with no analogue on the market, is part of Postbank's strategy to improve and upgrade the digital solutions it offers. It is crucial for the Bank to provide convenient ways of servicing its customers, tailored to their dynamic daily lives and their needs at all times, wherever they are. EVA Postbank is a virtual advisor which can assist with answers to the most common questions about the use of products and services provided by the Bank, questions regarding the merger of the two banks, location of the nearest offices and ATMs and many others. For more information and further advice, EVA Postbank directs customers to contact an expert from the Bank via the live chat feature.

In 2019, Postbank launched an innovative mobile service on the market that saves time and costs for consumers and employers. This is a special place, which is located upon request in the business centers and malls, and provides an easy opportunity for free expert consultation on various financial products and current offers. Among the strongest advantages of the service, besides saving time and the convenience of the Bank to "visit" in your office, is the possibility for the client to receive an individually flexible solution for his needs.

After an in-depth study of consumer attitudes, in May 2019 the Bank entered into a new strategic partnership with ClaimCompass, a Bulgarian technology company that professionally protects passengers' rights in the event of problems with their flights.

The Bank credit cardholders may benefit the innovative service, which is the only one offered in the market. They are also offered an exclusive opportunity - to request a follow-up flight and in case of a problem, ClaimCompass contacts the customer and informs them of the next steps to file a claim and receive compensation.

Postbank offers targeted consumer credit for business training worldwide, with no analogue on the market in our country. It can finance fees under various programs such as Master of Business Administration, Executive Master of Business Administration, Advanced Management and more. The new product was created in response to the growing interest in financing trainings that pave the way for career growth and development registered by the Bank in recent years.

In 2019, Postbank continued to offer its modern and convenient Mobile Bankers service. The service is a free professional consultation, with experts providing solutions tailored to the client's specific needs and assisting in completing the necessary documents and entering a bank branch. Mobile bankers answer all questions related to consumer and mortgage loans, overdrafts and credit cards, at a convenient and pre-ordered time and in a place preferred by the customer.

Postbank has continued its partnership with Booking.com, the world's leading provider of accommodation, with all Postbank Mastercard and Visa credit card holders receiving an additional 3% discount on each booking through the Bank's Booking.com website in Bulgaria or abroad.

The Bank continued to offer its clients the More Today lending program, with which the customers can increase their income by up to 50%. It includes a wide range of credit products, allowing customers to quickly and easily consolidate their credit card, consumer or mortgage loans up to 100,000 BGN. In addition to better personal finance management, the program allows users to save time by paying one higher payment to one bank on a specific date.

Postbank has shown growing interest in home loans. The increase in property purchases has contributed to an increase in home loan applications compared to the same period last year. Demand for larger properties continues - mainly for three-bedroom homes with an area of more than 90 square meters. The greatest interest is in monolithic homes, new construction in big cities. There was also an increase in the sale price of the properties, an increase of 7.53% in the average price per square meter of financed residential real estate in Sofia according to Postbank data. This trend, as well as the interest in buying larger-sized residential properties, lead to an increase in the average size of the requested mortgage loan, which according to the financial institution has increased by 10% compared to the same period in 2018.

SUSTAINABLE DEVELOPMENT

In addition to its core business, Postbank continued to focus on the needs of the local community, supporting programs and initiatives in conjunction with established institutions and organizations. The Bank strives to educate both its employees and consumers and the public in a responsible attitude to everything that surrounds us. It aims not only to create competitive advantages by incorporating increasing added value into the products it offers, but also to reduce its negative impact on the environment by using every opportunity to contribute to nature conservation.

In 2019, the Bank implemented a number of socially significant projects in the fields of education, environmental protection, sports and corporate donation. Postbank is an active member and works in support of KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borika AD, Endeavor Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donation Forum, Atanas Burov Foundation, the Bulgarian Network of the UN Global Compact, the Bulgarian Advertisers Association and the Bulgarian Fintech Association.

The education of children and young people in Bulgaria has always been part of the developed and supported by Postbank Corporate Social Responsibility projects. That is why the Bank continues to develop its joint project with SoftUni in support of Bulgarian education, which started in 2018. It includes various activities for the preparation of young people for the professions of the future and realization in Bulgaria. Through a strategic partnership, the two organizations aim to encourage students to develop their potential as IT and digital leaders, prepared for the rapidly changing environment and emerging banking trends. Postbank provided 10 scholarships for training at SoftUni. They were for the winners of the first issue of the game BRAIN GAMES, which took place in July and August on the financial institution's Facebook page in two directions - programming and design. BRAIN GAMES is a game for "smart" and "creative" personalities.

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More than 400 students and students from all over Bulgaria with 36 projects participated in the contested SoftUniada 2019 race, organized by the Software University for the fourth consecutive year. Postbank participated with its representatives in the evaluation of competitive bids. The special prize of the Bank was awarded to Kiril Vasilev from Plovdiv, who competes in the category "Software projects" for young people over 16. He won with his development for the application program "Plovdiv 2019 - Volunteers", created especially for the initiative

"Plovdiv - European Capital of Culture 2019", which brings together over 360 projects with nearly 500 events.

A team of three young programmers won the Postbank Grand Prix from the one-of-a-kind SoftUni Fest competition organized by Software University (SoftUni). They were working on an assignment for a software solution for monitoring the physical activity of the user, which can be integrated with some of the well-known mobile applications.

For a third consecutive year, Postbank executives took part in European Money Week. The joint initiative of the European Banking Federation, part of which is the Association of Banks in Bulgaria and other national banking associations, aims to improve the level of financial education of students in primary and secondary schools in Europe. More than 25 open lessons in more than 10 cities in the country were organized by Postbank employees as part of the initiative. They presented to students between 3rd and 12th grade interesting points in the history of money and focused on ways to save, various banking products and the most common cybercrimes.

Postbank supported the Gallery of Success conference, organized by the Business Club of the American University in Bulgaria - an organization that brings together students of different nationalities who want to broaden their horizons and improve their professional skills.

Postbank also joined this year in the socially responsible initiative of the UN Global Compact Network Bulgaria called Proud of my Parents' Work. The campaign aims to help children in their future career guidance, teaching them that work and education are leading values, and qualities and skills are at the heart of successful personal fulfillment. A total of 120 children between the ages 7 to 12 visited the headquarters of the Bank.

In 2019, the financial institution once again supported the National Trade and Banking High School in Sofia, committing itself to become a mentor to one of the training banks. The young bankers at Postbank Next participated in the XX Fair on Integrative Practical Training. The team won the prestigious Corporate Governance Award in a competition between 56 NTBG training companies - 20 banks, 30 companies and 6 insurance companies.

Within its traditional internship program, which is already year-round, Postbank once again enabled talented students and young people with the motivation to prove their skills and start their professional careers in one of the biggest and leading innovations banks in the market. The internship program has been part of Postbank's Corporate Social Responsibility Policy in support of young people for over 12 years. To promote its internship program, in 2019 the Bank

also created a series of videos about the personal success story of people from the team who started working at the Bank as interns and reached management positions, as well as stories of current interns in the financial institution.

Postbank also joined the largest career event for qualified people - Career Show 2019.

For another year, Postbank supported the conference of Bulgaria ON AIR and Bloomberg TV Bulgaria - Education and Business. The international forum brings together representatives of leading companies that work every day for young people's development.

For a consecutive year, Postbank, as a member of the Association of Banks in Bulgaria (ABB), has been involved in a European campaign to combat financial mules.

In 2019, Postbank joined a charity initiative to donate medical equipment to support the treatment of premature infants, valued at over BGN 50,000, to six hospitals in the country. The Children's Day donation campaign was organized by ABB and Premature Children Foundation with the participation of ABB members.

In June, Postbank was once again a major partner of the charity relay run Postbank Business Run, organized annually by the Begach Club. It featured a record number of participants - 306 teams from 119 companies from different sectors competing in support of two causes. Funds raised - over than BGN 11,000 will be donated as 12 scholarships as a part of "Continue Program" of the National Foster Care Association and the BCause Foundation supporting students in foster care to continue their successful performance in school and to the Water Way Foundation project to provide water rehabilitation for children with disabilities. Once again in 2019 the largest regional business competition Business Run was held, with Postbank again among the partners, this time in Varna and Plovdiv.

A team from Postbank joined the Run2gether Bulgaria Charity Run for the second consecutive year in Sofia.

Representatives of the Bank joined as volunteering judges the Republican Championship of Road Safety and Applied Cycling for Children. It was attended by 10 teams from Sofia, Berkovitsa, Silistra, Chelopech, Etropole and Parvomay. The financial institution awarded the winners of the race.

Postbank is the only bank in Bulgaria which has a Green Board and an Environmental Office Unit within its organizational structure that works to protect the environment, both in terms of limiting the resources used by the Bank and in terms of its financing activities. In addition, members of the board organize various outdoor initiatives involving other employees.

Postbank Volunteers planted 500 trees as part of the company's Green Together environmental program and its sustainable environmental policy. More than 70 employees participated in the action to create the New Forest of Sofia.

In July 2019, volunteers from Postbank completely transformed a trail in Zlatni Mostove (Golden Bridges) area on Vitosha Mountain jointly with the team of the Nature Park and Vanja and Evgeniya Džaferović, who appreciated the cause and actively participated in it. The Outdoor Green Stories initiative is part of the company's sustainable environmental policy, which shows how, with a concerted effort, we can change the environment around us for the better.

With a cycling tour ended the final of the initiative of the UN Global Compact Network Bulgaria "Turning the Wheels for More Air", which is carried out with the support of Postbank.

The cycle of the events focused public attention on important issues such as damage from air pollution and good environmental practices.

Postbank won first place in the Eco Employer category of the Career Show 2019 Awards, in which a jury evaluated the best practices of companies. The Bank was honored for its overall corporate social

APPENDIX

responsibility with a focus on the environment.

The employees of Postbank are also regular donors to the National Center for Transfusion Hematology and participate in blood donation events organized and held at the Head Office of the company.

Throughout the year, the Bank continued its long-standing support and work with disadvantaged groups and the promotion of their active role in society. Support was provided to disadvantaged children in the town of Kazanlak, the elderly in the city of Ruse, the national Easter campaign for everyone - Give a Gift to Grandparents, as well as many other smaller initiatives throughout the year.

AWARDS:

- Prestigious International Award for Delivering Excellent Customer Experience in Banking in the Excellence in Customer Centricity / Customer experience category of the European Business Competition - The Retail Banking: Europe 2019 Awards, organized by the leading retail banking magazine Retail Banker International;
- Award for the eighth consecutive year for Best Bank in the provision of custodian services by Global Custodian Magazine - the prestigious global edition of Capital Markets, Asset Management and Investment;
- Postbank received high honors for the fifth time from the European Bank for Reconstruction and Development (EBRD) - the award for "Most Active Bank in Bulgaria in Trade Financing for 2018";
- For second year in a row, Postbank grabbed the Best Retail Banking in Bulgaria Award from the prestigious World Finance Banking Awards 2019 organized by World Finance Magazine;
- Endeavor's Dare to Scale Growth Program, with Postbank's main partner, is the winner in the prestigious Best Accelerator Program category of the 2019 CES Awards Bulgaria, organized by the Association of Bulgarian Leaders and Entrepreneurs (ABLE);
- Special Award for Sustainable Business Growth 2018 by the world leader in international money transfer Western Union;
- Deal of the Year Award from the 27th edition of the Bank of the Year Contest;
- Special Award for Contribution to the Bulgarian Economy from the Economic Magazine, which honors top companies from different sectors on the occasion of its 30th anniversary;
- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board of Postbank, was honored with the Special Banker of the Year 2019 Award for the successful completion of the merge with Piraeus Bank Bulgaria, the gained shareholders' confidence and the proven ability to lead a team;
- Dimitar Shoumarov, Executive Director and Chief Financial Officer of Postbank, wins the Atanas Burov Award 2019 for bank management;
- Employer of the Year Award for the second consecutive year at the prestigious Employer Branding Awards in Bulgaria, organized by b2b Media;
- Two first prizes in the Innovation in Talent Management category and the Employer branding

project category at the authoritative Employer Branding Awards organized by b2b Media in January 2020;

- Bronze in the Services category for the EVA Chatbot - Small Innovation with a Big Bet campaign, which promotes the first EVA Postbank bank chat, at the Effie Awards 2019;
- First prize in the Innovative Company of the Year category of the fifth edition of the b2b Media Annual Awards 2019 for overall digital transformation strategy;
- Award for "Leadership in the Banking Sector, Technology Development and Human Resources" from the 5th Annual Company of the Year Awards, organized by the Bulgaria Business Review Group;
- Postbank Momento's innovative brand received the Favorite Brand Award of Bulgarians in the Financial Institutions category from the 11th edition of the Consumer Rankings;
- Awarded by 2019 BAPRA Bright Awards for the Digital & Successful Together Employer Branding Campaign;
- EVA - Our Best Employee, New Service Award from the prestigious BAPRA Bright Awards 2019;
- Award in the category "Internal Communication Department of the Year" from the PR Prize 2019 for the project "Digital & Successful Together";
- Award in the category "Employer Branding Communication Campaign" from the PR Prize 2019 for the Digital & Successful Together project;
- First prize in the category "Business Educational Orientation Project" from the fifth edition of the b2b Media Annual Awards 2019 competition for the strategic long-term cooperation with SoftUni launched in 2018;
- Eco Employer Award from the Career Show 2019 Awards;
- Second place in the "Company Website" category of the annual "Site of the Year 2019" competition;
- Business Environment Sustainability Award in Bulgaria for the partnership of Endeavor Bulgaria's unique Dare to Scale project at the Annual Golden Hearth Awards by Business Lady magazine and Bulgaria Business Review.

SHARE CAPITAL STRUCTURE

As at 31 December, 2019 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

As part of the acquisition transaction of Piraeus Bank the Bank has acquired its own shares during the year in the amount of 457 shares.

MANAGEMENT BOARD

As at 31 of December, 2019 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 – Compliance Officer and Member of the Management Board.

Mr. Ioannis Serafeimidis was released as an Executive Director and Member of the Management Board on 21.03.2019.

1. 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.

2. 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.

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

3.1. Partners with unlimited liability

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

3.2. 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.

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

- **Petia Dimitrova**

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

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

Endeavor Bulgaria, Association, Bulgaria – Member of the Management Board;

Borica AD, Bulgaria – Member of the Board of Directors;

Foundation Atanas Burov, Bulgaria – Member of the Management Board.

Confederation of the Employers and Industrialists in Bulgaria, Bulgaria – Associate member of the Management Board (effective as of 18.09.2019);

Piraeus Bank Bulgaria AD, Bulgaria – Executive Director and member of the Board of Directors (effective as of 20.06.2019 until 12.11.2019).

- **Dimitar Shoumarov**

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

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

Piraeus Bank Bulgaria AD, Bulgaria – Executive Director and member of the Board of Directors (effective as of 20.06.2019 until 12.11.2019).

- **Asen Yagodin**

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

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

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

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

Piraeus Bank Bulgaria AD, Bulgaria – Member of the Board of Directors (effective as of 20.06.2019 until 12.11.2019).

- **Ioannis Serafeimidis**

ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors (until 21.02.2019);

- **Iordan Souvandjiev**

IMO Property Investments Sofia EAD, Bulgaria – Deputy Chairman and Member of the Board of Directors and Executive Director (until 20.05.2019).

4. 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 2019.

SUPERVISORY BOARD

As at 31 December 2019, the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairman and Member of the Supervisory Board;

- Theodoros Karakasis – Deputy Chairman and Member of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- John David Butts – Member of the Supervisory Board.

Ms. Christina Theofilidi was released as a Member of the Supervisory Board on 06.02.2019.

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during the year

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

2. 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.

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

3.1. Partners with unlimited liability

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

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

Mr. John David Butts has been a partner or a shareholder holding more than 25 per cent of the capital of another company. No member of the Supervisory Board has been a partner or a shareholder holding more than 25 per cent of the capital of another company.

- **John David Butts**

J David Butts EOOD, Bulgaria – Sole Owner (terminated through liquidation on 31.12.2019);

Lex RX Bulgaria EOOD, Bulgaria – Sole Owner;

Ubad - Toro OOD, Bulgaria – Partner;

Lexrx Capital OOD, Bulgaria – Partner.

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

- **Georgios Provopoulos**

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

Ellaktor SA, Chairman of the Board of Directors.

- **Theodoros Karakasis**

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

Eurobank A.D. Beograd, Serbia – Vice Chairman of the Board of Directors (Management Board);

Bulgarian Retail Services A.D., Bulgaria – Chairman of the Board of Directors (until 29.11.2019);

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

- **Stavros Ioannou**

Eurobank Ergasias S.A., Greece – Deputy Chief Executive Officer, Group Chief Operating Officer & International Activities;

BE – Business Exchanges S.A of Business Exchanges Networks and Accounting and Tax Services, Greece – Chairman of the Board of Directors;

Eurobank Property Services S.A., Greece – Member of the Board of Directors (until 01.04.2019);

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

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

Grivalia Properties R.E.I.C, Member of the Board of Directors (until 17.05.2019);

Grivalia Management Company S.A., Greece - Member of the Board of Directors (since 27.09.2019)

- **Michalakis Louis**

Eurobank Ergasias S.A., Greece - Head of International Activities General Division, Member of the Executive Board (not an official management/supervisory body, respectively it is not a directorship position);

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

Eurobank a.d. Beograd, Serbia - Chairman of the Board of Directors;

Eurobank Cyprus Ltd, Cyprus - Chief Executive Officer;

NEU Property Holdings 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;

Naltirox Investments Limited, Cyprus – Executive Director.

- **Anastasios Nikolaou**

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

- **John David Butts**

Lexrx Capital OOD, Bulgaria – Manager;

4. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commercial Act during 2019.

In 2019 the members of the Management and Supervisory boards have received remuneration amounting to BGN 2,464 thousand.

BANK STRUCTURE

Eurobank Bulgaria AD has one subsidiary as at 31 December 2019 - ERB Leasing Bulgaria EAD.

The Bank employs 3,383 people (2018: 2,643).

OBJECTIVES FOR 2020

After the successful completion of the acquisition and integration of Piraeus Bank Bulgaria in a record time, in 2020 Eurobank Bulgaria will return to organic growth and focus on increasing its income and on maintaining its double digit return on equity.

The Bank will expand its lending portfolio in line with the market while keeping its position as the third biggest lender. No major changes are expected in the credit policy and risk appetite and no segment will be prioritized. The capital adequacy ratio will be strengthened by the retention of the net profit for the year in order to stay ahead of the increasing regulatory requirements. The bank will continue to follow strictly its strategy for further reduction of the nonperforming exposure and improving the coverage ratio.

The new lending will be covered by a reciprocal increase of client deposits thus keeping the liquidity buffers intact. The market pressure on the lending rates will be offset by the increase of the volumes resulting in higher interest income. The enlarged clientele after the merger with Piraeus Bank Bulgaria will present more opportunities for cross selling and help expand the fees and commission income. With the integration completed, in 2020 costs will be streamlined and the cost-income ratio will return to its normal level.

Innovation will remain key to the Bank's strategy as a way to stand out from the competition and withstand the pressure of the new market entrants. Therefore, the bank will continue to invest significant amounts in digitalization and branch network transformation in order to provide an impeccable customer service. The long-term strategy of the Bank remains unchanged - to be the Bank of first choice, 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 and its financial results as at year end. The management has prepared the enclosed financial statements in accordance with IFRS as adopted by the European Union.

The Directors confirm that suitable accounting policies have been used.

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

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



Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

24 March 2020
Sofia, Bulgaria



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

SELECTED REPORTING DATA

Income Statement

Separate income statement	Notes	Year ended 31 December	
		2019	2018
Interest and similar income		347,375	323,053
Interest and similar charges		(10,897)	(11,540)
Net interest income	6	336,478	311,513
Fee and commission income		111,947	99,219
Fee and commission expense		(17,935)	(16,321)
Net fee and commission income	7	94,012	82,898
Bargain gain	38	78,690	-
Other operating income, net	8	1,001	1,032
Dividend income		56	31
Net trading income	9	289	118
Gains less losses from trading securities	17	259	(264)
Gains less losses from investment securities	19b	4,970	4,742
Repossessed assets impairment		(475)	(497)
Other operating expenses	10	(198,633)	(144,207)
Deposit Insurance Fund expense		(19,501)	(16,358)
Impairment charge for credit losses	12	(66,067)	(63,799)
Profit before income tax		231,079	175,209
Income tax expense	13	(17,380)	(17,782)
Profit for the year		213,699	157,427

The separate financial statements were authorized by the management on 24 March 2020



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:

For KPMG Audit OOD:

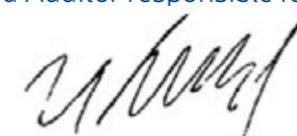
For Baker Tilly Klitou and Partners OOD:



Sevdalina Dimova
Registered Auditor responsible for the audit



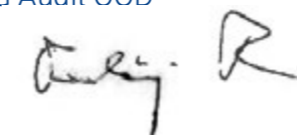
Galina Lokmadjieva
Registered Auditor responsible for the audit



Ivan Andonov
Authorised representative
For KPMG Audit OOD



Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners OOD



Ondrej Fikrle
Engagement partner
For KPMG Audit OOD

Statement of Comprehensive Income

Separate statement of comprehensive income	Notes	Year ended 31 December	
		2019	2018
Profit for the year		213,699	157,427
<i>Items that are or may be reclassified subsequently to profit and loss:</i>	14	(1,972)	(8,649)
Debt securities at FVOCI			
-net changes in Fair Value, net of tax		1,680	(5,824)
-reclassified to profit or loss, net of tax		(3,652)	(2,825)
<i>Items that will not be reclassified to profit or loss:</i>		729	73
Change in FV of property, plant and equipment, net of tax		903	(36)
Remeasurements of retirement benefit obligations, net of tax		(174)	109
Other comprehensive income for the year	14	(1,243)	(8,576)
Total comprehensive income for the year		212,456	148,851

The separate financial statements were authorized by the management on 24 March 2020



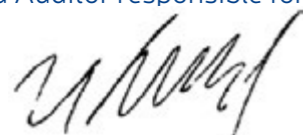
Petia Dimitrova
Chairperson of the Management Board and
Chief Executive Officer

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

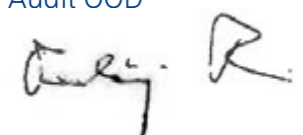
For KPMG Audit OOD:



Sevdalina Dimova
Registered Auditor responsible for the audit



Ivan Andonov
Authorised representative
For KPMG Audit OOD



Ondrej Fikrle
Engagement partner
For KPMG Audit OOD



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

For Baker Tilly Klitou and Partners OOD:



Galina Lokmadjieva
Registered Auditor responsible for the audit



Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners OOD

Statement of Financial Position

Separate statement of financial position	Notes	As at 31 December	
		2019	2018
ASSETS			
Cash and balances with the Central Bank	15	1,454,306	871,393
Loans and advances to banks	16	1,702,796	1,417,922
Trading assets	17	8,805	8,071
Derivative financial instruments	25	1,502	2,400
Loans and advances to customers	18	7,111,741	5,271,189
Investment securities	19a	579,275	409,407
Shares in subsidiary undertakings	37	6,763	4,868
Current income tax recoverable		1,398	374
Deferred tax assets	28	16,050	-
Property, plant and equipment, including right of use assets	21	200,987	125,088
Investment property	20	1,488	406
Intangible assets	22	61,850	58,536
Other assets	23	36,739	27,545
Total assets		11,183,700	8,197,199
LIABILITIES			
Deposits from banks	24	15,036	28,079
Derivative financial instruments	25	8,353	5,938
Due to customers	26	9,438,085	6,814,255
Other borrowed funds	27	38,924	22,973
Deferred tax liabilities	28	-	2,001
Provisions for other liabilities and charges	29	26,583	6,817
Retirement benefit obligations	30	8,062	5,429
Other liabilities	31	175,363	61,047
Total liabilities		9,710,406	6,946,539
SHAREHOLDERS' EQUITY			
Share capital		560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves		630,450	407,816
Total shareholders' equity	32	1,473,294	1,250,660
Total shareholders' equity and liabilities		11,183,700	8,197,199

The separate financial statements were authorized by the management on 24 March 2020



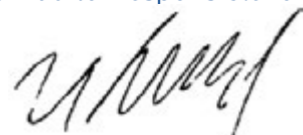
Petia Dimitrova
Chairperson of the Management Board and
Chief Executive Officer

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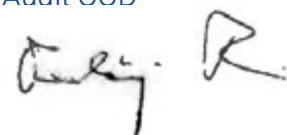
For KPMG Audit OOD:



Sevdalina Dimova
Registered Auditor responsible for the audit



Ivan Andonov
Authorised representative
For KPMG Audit OOD



Ondrej Fikrle
Engagement partner
For KPMG Audit OOD



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

For Baker Tilly Klitou and Partners OOD:



Galina Lokmadjieva
Registered Auditor responsible for the audit



Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners OOD

Statement of Changes in Shareholders' Equity

Separate statement of changes in shareholders' equity	Share capital	Property revaluation reserve	Fair value reserve	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 01 January 2018	560,323	1,059	31,052	282,521	361,632	1,236,587
Impact of adopting IFRS 9 at 1 January 2018, net of tax	-	-	-	-	(77,021)	(77,021)
Reclassification, net of tax	-	-	(131)	-	131	-
Balance at 01 January 2018	560,323	1,059	30,921	282,521	284,742	1,159,566
Profit for the year	-	-	-	-	157,427	157,427
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI	-	-	(8,649)	-	-	(8,649)
Revaluation of property, plant and equipment	-	(36)	-	-	-	(36)
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	109	109
Total comprehensive income for 2018	-	(36)	(8,649)	-	157,536	148,851
Acquisition of subsidiary	-	-	-	-	917	917
Transactions with owners of the Bank						
Contributions and distributions:						
Dividend paid	-	-	-	-	(58,674)	(58,674)
Total transactions with owners of the Bank	-	-	-	-	(58,674)	(58,674)
Balance at 31 December 2018	560,323	1,023	22,272	282,521	384,521	1,250,660
Balance at 01 January 2019	560,323	1,023	22,272	282,521	384,521	1,250,660
Profit for the year	-	-	-	-	213,699	213,699
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI	-	-	(1,972)	-	-	(1,972)
Revaluation of property, plant and equipment	-	903	-	-	-	903
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	(174)	(174)
Total comprehensive income for 2019	-	903	(1,972)	-	213,525	212,456
Changes in post acquisition reserves of Piraeus Bank Bulgaria	-	-	-	-	10,178	10,178
Transfer to retained earnings	-	(72)	-	-	72	-
Balance at 31 December 2019	560,323	1,854	20,300	282,521	608,296	1,473,294

The separate financial statements were authorized by the management on 24 March 2020



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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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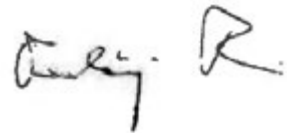
For KPMG Audit OOD:



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Ivan Andonov
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Ondrej Fikrle
Engagement partner
For KPMG Audit OOD

For Baker Tilly Klitou and Partners OOD:



Galina Lokmadjieva
Registered Auditor responsible for the audit



Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners OOD

Statement of Cash Flows

Separate statement of cash flows

Year ended 31 December

2019 2018

CASH FLOW FROM OPERATING ACTIVITIES

Interest received	356,819	319,271
Interest paid	(9,116)	(10,899)
Dividends received	56	31
Fees and commission received	111,683	99,514
Fees and commission paid	(15,575)	(14,605)
Amounts paid to and on behalf of employees	(91,943)	(74,343)
Net trading and other income received	413	3,130
Other operating expenses paid	(87,034)	(74,626)
Tax paid	(18,691)	(9,925)
Cash from operating activities before changes in operating assets and liabilities	246,612	237,548

CHANGES IN OPERATING ASSETS AND LIABILITIES

Net (increase) in reserve with the Central Bank	(112,595)	(33,919)
Net (increase)/ decrease in trading securities	(734)	6,117
Net (increase) in loans and advances to customers	(615,736)	(630,696)
Net (increase) in other assets	(1,122)	(3,052)
Net increase/ (decrease) in derivatives instruments	2,793	(2,301)
Net (decrease)/ increase in due to other banks	(13,043)	19,054
Net increase in amounts due to customers	625,111	733,368
Net (decrease)/ increase in other liabilities	(4,732)	1,185
Net cash flows from operating activities	126,554	327,304

Statement of Cash Flows (continued)

Separate statement of cash flows	Year ended 31 December	
	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for acquisition of Piraeus Bank, net of cash acquired (Note 38)	774,446	-
Net proceeds from purchase/ sale of shares in subsidiaries (Note 37)	(1,141)	(15,505)
Purchase of property, plant and equipment and intangible assets (Notes 21,22)	(20,830)	(35,641)
Purchase of investment securities	(157,271)	-
Proceeds on disposal of property and equipment	456	581
Proceeds from sale of investment securities	51,727	39,728
Net cash flow from investing activities	647,387	(10,837)
CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES		
Dividend paid	-	(58,674)
Long-term debt repaid	(6,548)	(7,441)
Payment of lease liability	(12,068)	-
Net cash used in financing activities	(18,616)	(66,115)
Effect of exchange rate changes on cash and cash equivalents	(357)	(1,181)
Net change in cash and cash equivalents	754,968	249,171
Cash and cash equivalents at beginning of year	1,985,058	1,735,887
Cash and cash equivalents at end of year (Note 33)	2,740,026	1,985,058

The separate financial statements were authorized by the management on 24 March 2020



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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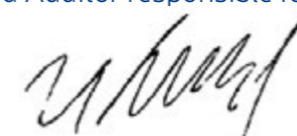
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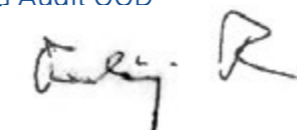
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CONTRIBUTION TO SUSTAINABILITY

WORLD
FINANCE

BEST RETAIL BANK,
EUROPE

EVERY
ACCOMPLISHMENT
IS JUST THE STEP TO
THE NEXT ONE.

CONTRIBUTION TO SUSTAINABILITY



Dear readers,

With this letter from the pages of the Annual Report of Postbank for 2019 we would like to address you - our clients, employees and business partners - with deepest gratitude. We are grateful to you for your participation and contribution to the changes we are making together and we would like to share with you our satisfaction with yet another extremely successful year for us, as well as to present to you the positive report on our team's achievements in economic, environmental and social terms.

Indeed, 2019 was rich in achievements, but it was also a very special year, because on 12 June, 2019 the bank acquired the shares of Piraeus Bank Bulgaria AD and in a record short period of 4 months, by November, managed to complete the legal and the operational merger, which solidified our position among the market leaders.

For 28 years we have been uncompromisingly following our vision that our successful business development is inextricably linked with projects aimed at developing the social environment in which the bank operates. As a result of these views, in 2019 we achieved a net profit of BGN 213.7 million, which is an increase of over 35 percent from 2018. Postbank achieved a significant increase of its deposit base, both as a result of the merger and from new and existing clients. Customer deposits spiked by 39 percent, reaching BGN 9.44 billion, corresponding to a 10.3 percent market share at the end of the year. The distribution of the deposit base between retail and corporate clients remained unchanged. Customer deposits amounted to BGN 6.99 billion, while corporate deposits amounted to BGN 2.45 billion.

Sustainable benefits for our clients and partners

Our long-term strategy remains unchanged, namely to be, first and foremost, our clients' bank, providing them with modern products, excellent service and financial solutions tailored to their specific needs. Driven by these guidelines, in 2019 the bank continued to invest in the innovative consumer lending brand Momento. In just one year, Momento consumer credit centres, with their convenient locations and extended working hours, proved to be a modern and convenient way for quick and easy financing.

One of Postbank's latest developed financial solutions was EVA Postbank. This is the first mobile banking app in Bulgaria with a "live chat" function, created especially for the acquisition of Piraeus Bank Bulgaria, to benefit of both the clients of Piraeus Bank during the joining process and the clients of Postbank. The modern interactive app, which is unique on the market, is part of Postbank's strategy to improve and upgrade the digital solutions it offers.

In addition to the new products, the bank offered a number of other advantages throughout the year - the possibility of additional discounts, cash bonuses through the innovative "Super @ccount" salary account, Western Union transfers directly at its ATMs and mobile banking experts who advise clients at a pre-arranged time and place.

Employee Development

The real engine of Postbank's innovation and great results, as well as our most valuable resource, has always been and will be the team. It is a priority for the bank to invest in professionally trained employees who can competently assist and advise clients, as well as create new products for the market. This is why in 2019 we developed a comprehensive strategy, involving various activities to improve the working environment, successful management and opportunities for professional development and engagement of employees in projects and campaigns aimed at improving the environment and supporting society. We encourage the initiative, creativity and desire of each employee to be part of the changes and the development of the bank, and consequently, the two internal initiatives Ideas and Together enjoyed great popularity during the year.

We have shown that we are a strong and cohesive team!

Care for the environment and society

We continue to be extremely active in the field of corporate social responsibility, implementing a number of socially significant projects in the field of education, environmental protection, sports and corporate donation. We have implemented many of our own initiatives and supported the programs of established institutions and organizations as their long-term partner.

Social responsibility and care for the environment are not just part of the business model with which we strive to save resources and leave a less noticeable footprint of our activities. These are now a personal cause for many of our employees, whose ideas and enthusiasm make our mission as a corporate citizen even more significant. We firmly believe that good ideas should be encouraged. We hope that other companies will follow the example we are setting.

On the next pages of the report, you can learn more about all the components of our contribution to creating sustainable benefits for our clients, partners and the public.

In 2020 we will continue to work as before - by thinking of the people in the company and caring for clients, society and nature.

Yours sincerely,

Dimitar Shoumarov

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

Asen Yagodin

Executive Director and
Member of the Management Board

GUIDING PRINCIPLES AND BELIEVES

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

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

MISSION, VISION AND VALUES

Our mission

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

Our vision

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

Our values



MERITOCRACY
Equal opportunities for distinction.



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



QUALITY
We aim at excellence in everything we do.



EFFECTIVENESS
We always strive to accomplish the goals we set.



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



TRUST
When it exists, we achieve the impossible.



TEAMWORK
We succeed when we work together.



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

CONTRIBUTION TO SUSTAINABILITY

Open and transparent relations

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

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

Clients

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

Shareholders and investors

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

Personnel

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

Suppliers

- Contacts with Contractors;
- Committees on supplier selection.

Community and environment

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

CONTRIBUTION TO SUSTAINABILITY

ECONOMIC CONTRIBUTION CONTRIBUTION TO ECONOMIC GROWTH

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

In addition to the fair distribution of capital, Postbank strives to support the Bulgarian economy by adhering strictly to centralized procedures for managing procurements, ensuring the top quality of supplies, containing costs and promoting the best social practices. Postbank follows a unified policy of selection of suppliers, based on strategic synergies and mutually beneficial relations. The procedures for selection and evaluation of suppliers are regulated by complete transparency at all stages and by objective criteria such as good prices, regular deliveries and successful cooperation in the past. Moreover, in the selection of suppliers, the Bank aims at ensuring complete respect of human rights in those companies, as well as consistent application of environmentally friendly practices aimed at constant reduction of energy consumption. Recognizing the need for support to local economies, in 2019 Postbank preferred to work with local suppliers in selected categories of goods and services. The Bank works with a large network of local partners, accounting for around 90% of all its suppliers.



CREATED DIRECT ECONOMIC VALUE

SOCIAL PRODUCT	PUBLISHED RESULTS 2019		PUBLISHED RESULTS 2018	
	BGN Mio	EUR Mio	BGN Mio	EUR Mio
The contribution of the Bank to the "Social product"				
Turnover	544	278	423	216
Interest Expense and Fees & Commissions expense	(29)	(15)	(28)	(14)
VAT on Added Value of the Bank	(5)	(3)	(5)	(2)
Impairment losses	(66)	(34)	(64)	(33)
Social Product	444	227	326	167
The "Social product" and its Distribution				
I. Personnel	77	40	68	35
Gross Pay	100	51	85	44
Employer contribution to social security institutions	4	2	3	2
Medical, Retirement and other benefits	0	0	1	1
Contribution to Social Security Institutions (Employer and Employees)	(20)	(10)	(16)	(8)
Employees tax	(7)	(3)	(6)	(3)
II. Suppliers of Goods & Services	84	43	40	21
III. Donations and sponsorships	0	0	0	0
IV. State	69	35	61	31
Income Tax and various taxes	17	9	18	9
Value added taxes	5	3	5	2
Deposit Guarantee and Investors compensation schemes	20	10	16	8
Contribution to Social Security Institutions (Employer and Employees)	20	10	16	8
Employees tax	7	3	6	3
V. Company	214	109	157	80
Retained earnings/ Reserve	214	109	157	80
Social product	444	227	326	167

CUSTOMER SATISFACTION AND LEAN MANAGEMENT

In 2019, Postbank deepens its focus on customer satisfaction and quality of service by investing in various projects to improve the quality of consultation and offered services. Based on customers' feedback we meet client expectations and build customer relationships based on trust and loyalty.

In 2019, Postbank launched a project that allows customers to share their opinion and feedback immediately after visiting the bank's financial center. The results are available for analysis and actions on-the-spot. Through project implementation, the bank strengthens its leading position in innovations and focus on customer satisfaction.

Postbank differentiates two independent departments - Quality of service and Transformation of the branch network which activities are focused on identifying and analyzing the quality of customer service and work processes optimization centered on customer opinion and advices.

During the year, a number of additional customer service quality surveys were carried out. Very satisfying results were received regarding to Postbank customers satisfaction and recommendation. We upgraded Postbank projects launched in previous years, such as: electronic signing of documents, solutions for automation of cash transactions and others. As a result the service speed, the effectiveness and security of customer operations were improved.

RESPONSIBLE CONDUCT AND PRODUCT LIABILITY

The Bank observes and complies in entirety with the Code. The Bank's Articles of Association ("AoA") and all adopted internal rules and manuals are in a full compliance with the Code and the applicable legislation. Presently there have not been any ascertained cases of non-compliance with the Code.

Internal Corporate Governance Code

The Bank has developed and adopted its Internal Governance Control Manual ("IGCM") and strictly applies its guidelines. The IGCM of the Bank covers the content and is in full compliance with the framework set by the Code.

Ethics Code

In the scope of ethics the Bank has adopted and currently applies a document named Code of Professional Conduct, containing rules in addition to the requirements of the legal framework which aim at setting minimum common internal rules and principles of professional and ethical conduct to be followed by the Staff of the Bank during the performance of their duties.

Conflict of interest

Procedures for preventing and detecting conflicts of interest in the Bank are incorporated in Internal

Rules for Managing Conflict of interest. In accordance with these procedures, Executive Directors and other members of Management have a duty to inform the Supervisory Board / Management Board respectively of any personal interests they may derive from Bank's transactions that fall under their field of responsibility or any other conflict between their and the Bank's interests that may occur, in carrying out their duties.

Remuneration

The adopted Remuneration Policy of the Bank forms an integral part of the Bank's corporate governance practice and is developed in accordance with its operational model, business strategy, short and longterm interests of the Bank and incorporates measures to avoid conflict of interest. Also, the Remuneration Policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking on behalf of the Bank. Accordingly, the operating standards and mechanisms which have been adopted ensure that the levels of remuneration are directly linked to results and desired behavior.

The 2019 Boards and key management remuneration disclosures are included in Annual Disclosures according to the requirements of Regulation (EU) 575/2013 (art. 431-455).

HUMAN CAPITAL DEVELOPMENT

Human Resources

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

Dynamic environment and intense competition on the banking market impose ambitious and

multidimensional requirements on the human resources function. They are related to the capability of human resources staff to identify and put appropriate people at relevant positions, to ensure effective training in order to quickly develop necessary professional skills, as well as to develop and motivate internal talents.

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

Recruitment

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

Since the requirements for appointment at different positions at the Bank are related to both high level of professional knowledge and proven moral and ethical values, the Bank aims at developing its internal contributors – people with undeniable qualities. This is why, more than 2/3 of the Bank's openings (60%) are taken by personnel coming from the so-called internal market, i.e. by promoted and reappointed employees. As a result 40% of 2019 openings were occupied by candidates outside the organization i.e.

CONTRIBUTION TO SUSTAINABILITY

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 2019 94% of the newly-appointed employees in the Bank had a university degree. In the changed environment of a competitive recruitment market in 2019, it makes an impression that 37% from the newly-appointed employees had less than two years of professional experience.

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.

As in previous years, in 2019 we placed special emphasis on connecting theoretical training with real practice. In this regard, all the staff of branch network was presented with an updated model for induction training, which upgraded the program from 2017 - 2018 and emphasized the effectiveness and practicality of the program, as well as employee retention. In addition, we have introduced career paths to give employees a clear guide to possible options for development and growth.

The largest project in 2019 was the joining of the employees of Piraeus Bank, as the approach was a combination of workshops, training in HO, electronic and practical training in a real environment. Nearly 90% of employees took part in this program, with the total number of man-hours exceeding 12,000.

We continued to place a strong emphasis on developing employees' skills and increasing their understanding of the importance of providing the highest quality customer service. In 2019, in parallel with the acquisition of Piraeus Bank, a project related to increasing customer satisfaction was launched, which covers the entire branch network and is planned to be held in several stages. In 2019 we conducted trainings for all Branch Managers, and the goal was to realize the importance of their role as people who inspire and motivate their employees to provide the highest level of service. As part of the program, the SMS notification system was presented, which enables them to manage customer satisfaction and expectations.

In 2019, the development of new areas of application of new learning technologies such as online and distance training continued. In support of the Digitalization Mission in 2019, we supplemented the topics for e-learning Code of Professional Conduct, Ordinance 18, human hours in e-learning increased by nearly 30% compared to 2018 and reached 22,903 hours. The total number of man hours

After the excellent review in 2018 for the Video tutorials on the Basic Banking System, in 2019 we created a separate section in the training portal, in which video tutorials are available on the entire functionality of the Basic Banking Systems.

Induction Programs

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. They are subject to periodic review, change and upgrade, tailored to the needs of the staff.

Given the changed labor market and the high percentage of newly hired employees with less than 2 years of experience, we paid special attention to the practical part of the training, extending it to Training in a specialized training branch with the opportunity to work in a real environment under the supervision of coach, we also added the support of a Mentor - an experienced colleague in his own Financial Center.

In 2019, the Training Center was expanded and modernized and currently has 2 fully equipped halls with computers and an available test environment of the main banking system, in order to focus on the practical part of the training to help speed up adaptation of new employees from the Branch Network. To get closer to the real environment, we use the established training bank branch with separate cash zones.

Following the bank's green policy, we have set up a Green Training Room, where instead of the familiar Flip charts, trainers can write on the walls, thus helping to reduce the use of paper.

Feedback

For Education and Development Department, feedback on the different levels is of particular importance and we seek the views of staff on all stages of the programs. In 2019 we improved this process, as all forms of feedback are electronic, so this provides an opportunity to assess the pros and cons of the relevant training programs and to work towards change and improvement.

Measuring the Professional Preparation

In 2019 the practice for regular and standardized measurement of employees' professional preparation in terms of systems, products and actual campaigns continued, by conducting regular quarterly trials for Branch Network employees. The tests have been organized online and the results are received immediately. They were used to identify the areas in need of knowledge improvement. Some changes have been made to the platform that allow the employees to see their mistakes shortly after the test and to prepare better for the next time.

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.

In addition, in 2019 we added Project Management Professional and Professional Coaching Qualification to the list of qualifications.

MBA Essentials Program

Traditionally, the bank invests in the development of its employees and in 2019 with its innovative open approach, the bank provided the opportunity to key people in the Retail Banking sector to increase their knowledge and skills by financing their training in MBA Essentials program to meet high standards for this type of training and at the same time to be prepared according to the needs of the organization.

The topics to be studied in this program were identified together with the Top Management of the Retail Banking sector and some of them are related to Strategic Thinking and Business Planning, Marketing in the Digital Age, Innovation and Creativity, Change Management and of course Leadership in 21st Century.

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' 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,

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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.

It also helps to increase the efficiency and effectiveness of the whole process. The system enables employees to focus on the areas of business that are most suitable for the development of their potential, while motivating them to achieve their professional goals.

In addition to the performance management system, for first time, for a group of key employees in the bank, 360 Feedback was applied, which is an opportunity for employees to see each other from the side, through the assessment of their performance made by colleagues who are familiar with their work at several levels.

This process usually involves direct subordinates, colleagues, line managers. The results of the information gathered provide a better idea of their strengths as managers, as well as the areas that need development. Each evaluator gives a different perspective on their skills, qualities and behaviors, which could be useful to them to get better and more complete picture of themselves and as leaders.

Compensation and Social Benefits

Postbank is aware of the social impact of its position as a major employer and is determined to provide its staff with various benefits. In this context, the Bank has implemented and strives to extend a consistent policy of providing additional benefits to its workforce and of applying strict health and safety standards at the workplace. The Bank provides various forms of support for ad hoc cases. All employees 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 Banks products and services at preferential terms is a significant benefit for Postbank's employees. These include home and consumer loans, credit cards, overdrafts, online banking. Staff members pay no fees for most banking operations such as cash transfers, withdrawals, etc.

Health and Safety at Work

The success and productivity of a business relies on the efficiency of its employees. This is why, ensuring healthy and safe working environment for each employee is the basis for health management at the Bank. Postbank not only strictly adheres to all safety standards prescribed by the labour legislation, but also undertakes additional actions to protect its employees' health for reasons of moral character and out of the conviction of the Bank's Management that the establishment of healthy and safe environment leads to better motivation of the staff and better competitiveness. Postbank works in close cooperation with a labour medicine service to ensure the safety and health of its staff during work. A joint assessment is made of the risks for the staff's health and safety, including assessment upon changes of labour conditions at the workplace and upon introduction of new technologies. All Postbank's employees are represented on the Health and Safety Committee – a centralized committee covering all Bulgarian entities, part of the Bank. The Committee is based in Sofia and is responsible for the Bank's head office and branches.

In this regard, in 2019 a specialized training for first aid at the workplace was organized for 100 employees, in order to provide timely first aid in case of an accident or in case of need.

REDUCING THE ENVIRONMENTAL FOOTPRINT

ENVIRONMENTAL POLICY STATEMENT

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

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

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

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



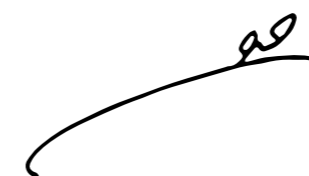
Petia Dimitrova

Chief Executive Officer and
Chairperson of the Management Board



Dimitar Shoumarov

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



Asen Yagodin

Executive Director and
Member of the Management Board

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ENVIRONMENT PROTECTION

1. Postbank environmental management overview

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

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

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

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

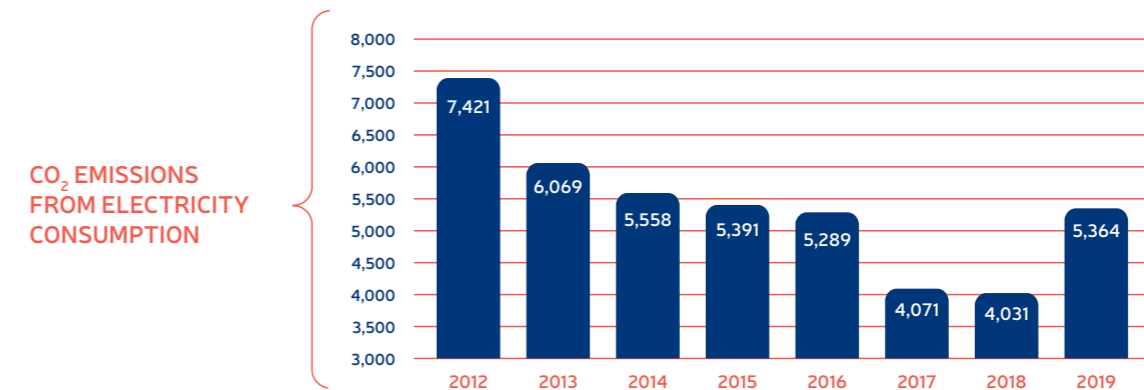
2. Resource consumption management at Postbank

In line with its policy and decisiveness to act, Postbank has identified the following **direct aspect** of its operations related to the internal consumption of electricity and its respective CO₂ emissions, water, and paper

A number of initiatives targeting resource use optimization were pursued through the years, and kept pace in 2019. The outcome of these is presented in Fig. 1, 2, and 3 below through three selected **environmental indicators**.

The analysis of the information shows that in 2019 there were increases in internal resource consumption. This could be attributed to the fact that, first, Postbank acquired another major bank in Bulgaria – Piraeus Bank - thus expanding its presences in the country, and, secondly, there was business increase which naturally lead to increase in internal resource consumption such as paper. Despite those facts, the efforts to contain internal resource consumption are deemed efficient since they did not allow for uncontrolled expansion of usage and kept it at reasonable levels.

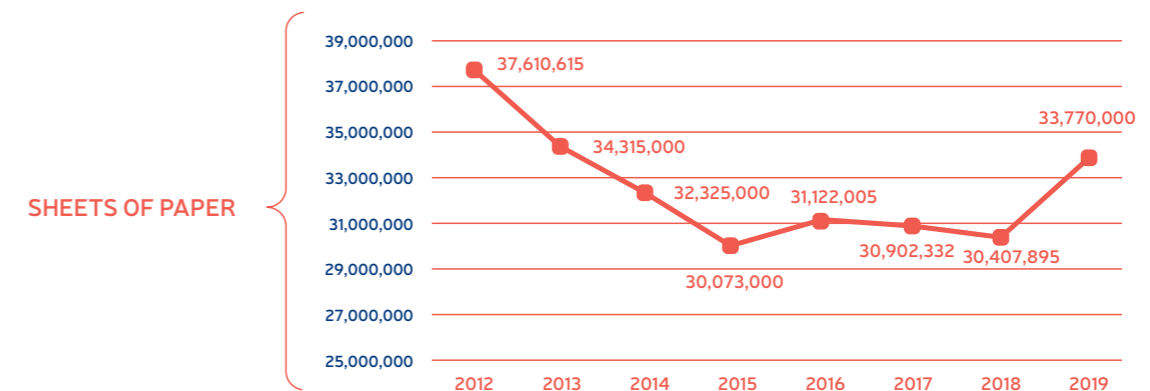
Fig 1. Postbank CO₂ Footprint from Electricity Consumption, 2012-2019



Source: Environmental Office calculations based on Premises Department data

Despite the innovative project aiming at the gradual implementation of digital signatures of all transactions done by customers at the financial centres of the Bank launched back in 2018, and continued in 2019, paper consumption has seen increase in 2019 of approximately 10% YoY. This is to be attributed, as pointed out above, to the increase in business volumes across the outlets of the Bank. The data on paper consumption are presented on Fig 2.

Fig. 2 Paper Consumption in Postbank, sheets of paper, 2012-2019

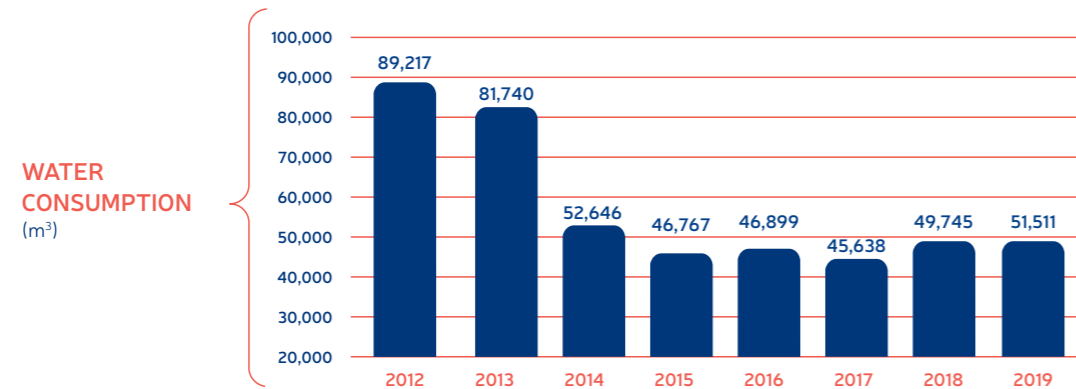


Source: Environmental Office calculations based on Facilities Department data

Water consumption for office needs has shown a certain increase in 2019 YoY. Checks of the premises for leakages have led to the improvement of a number of problematic water taps, however, acquiring Piraeus Bank and its offices naturally caused increase in consumption. Data are presented on Fig. 3 below which shows approximately 3% increase in water consumption YoY.

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Fig. 3 Water Consumption in Postbank, m³, 2012-2019



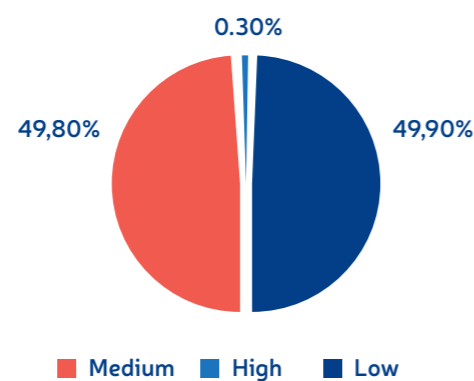
Source: Environmental Office calculations based on Premises Department data

In 2019, the Bank continued the implementation of its internal initiative – Green Heroes, initiated back in 2017, as part of its overall policy for sustainable development and environmentally-friendly behaviour, and as a socially responsible institution. It is aimed at encouraging socially responsible behaviour in its employees. They can apply through the campaign for funding from the bank to implement various local projects, which they chose themselves, and which show that simple actions could achieve sustainable changes. Such project was planting of trees in the New Forest of Sofia which is scheduled to continue in 2020.

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

The outcome of the analysis of the credit portfolio of the bank, presented on Fig 4, reveals that more than half of the deals have low environmental risk, those with high risk forming less than 1% of the total portfolio.

Fig. 4. Distribution of Levels of Environmental Risk in the Loan Portfolio of the Bank



Source: Environmental Office calculations based on CBD and SBB Divisions data

Postbank affirms the continuation of pursuing the following **goals for 2020** in the area of environmental management:

- Engage staff in a variety of activities to expand their awareness on environmental and social issues;
- Enhance of e-learning in various aspects of the application of the environmental policy of the Bank;
- Enrich further the existing intranet training materials for the staff on environmental issues important for bankers.

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

3. Fines, sanctions or cases brought through dispute resolution mechanisms

In 2019 Postbank had no fines, sanctions or cases in the area of environmental management.

INVESTING IN SOCIETY

In addition to its core business, Postbank continued to focus on the needs of the local community, supporting programs and initiatives in conjunction with established institutions and organizations. The Bank strives to educate both its employees and consumers and the public in a responsible attitude to everything that surrounds us. It aims not only to create competitive advantages by incorporating increasing added value into the products it offers, but also to reduce its negative impact on the environment by using every opportunity to contribute to nature conservation.

In 2019, the Bank implemented a number of socially significant projects in the fields of education, environmental protection, sports and corporate donation. Postbank is an active member and works in support of KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borika AD, Endeavor Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donation Forum, Atanas Burov Foundation, the Bulgarian Network of the UN Global Compact, the Bulgarian Advertisers Association and the Bulgarian Fintech Association.



The education of children and young people in Bulgaria has always been part of the developed and supported by Postbank Corporate Social Responsibility projects. That is why the Bank continues to develop its joint project with SoftUni in support of Bulgarian education, which started in 2018. It includes various activities for the preparation of young people for the professions of the future and realization in Bulgaria. Through a strategic partnership, the two organizations aim to encourage students to develop their potential as IT and digital leaders, prepared for the rapidly changing environment and emerging banking trends. Postbank provided 10 scholarships for

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training at SoftUni. They were for the winners of the first issue of the game BRAIN GAMES, which took place in July and August on the financial institution's Facebook page in two directions - programming and design. BRAIN GAMES is a game for "smart" and "creative" personalities.



More than 400 students and students from all over Bulgaria with 36 projects participated in the contested SoftUniada 2019 race, organized by the Software University for the fourth consecutive year. Postbank participated with its representatives in the evaluation of competitive bids. The special prize of the Bank was awarded to Kiril Vasilev from Plovdiv, who competes in the category "Software projects" for young people over 16. He won with his development for the application program "Plovdiv 2019 - Volunteers", created especially for the initiative "Plovdiv - European Capital of Culture 2019", which brings together over 360 projects with nearly 500 events.



A team of three young programmers won the Postbank Grand Prix from the one-of-a-kind SoftUni Fest competition organized by Software University (SoftUni). They were working on an assignment for a software solution for monitoring the physical activity of the user, which can be integrated with some of the well-known mobile applications.



For a third consecutive year, Postbank executives took part in European Money Week. The joint initiative of the European Banking Federation, part of which is the Association of Banks in Bulgaria and other national banking associations, aims to improve the level of financial education of students in primary and secondary schools in Europe. More than 25 open lessons in more than 10 cities in the country were organized by Postbank employees as part of the initiative. They presented to students between 3rd and 12th grade interesting points in the history of money and focused on ways to save, various banking products and the most common cybercrimes.

Postbank supported the Gallery of Success conference, organized by the Business Club of the American University in Bulgaria - an organization that brings together students of different nationalities who want to broaden their horizons and improve their professional skills.

Postbank also joined this year in the socially responsible initiative of the UN Global Compact Network Bulgaria called Proud of my Parents' Work. The campaign aims to help children in their future career guidance, teaching them that work and education are leading values, and qualities and skills are at the heart of successful personal fulfillment. A total of 120 children between the ages 7 to 12 visited the headquarters of the bank.

In 2019, the financial institution once again supported the National Trade and Banking High School in Sofia, committing itself to become a mentor to one of the training banks. The young bankers at Postbank Next participated in the XX Fair on Integrative Practical Training. The team won the prestigious Corporate Governance Award in a competition between 56 NTBG training companies - 20 banks, 30 companies and 6 insurance companies.

Within its traditional internship program, which is already year-round, Postbank once again enabled



talented students and young people with the motivation to prove their skills and start their professional careers in one of the biggest and leading innovations banks in the market. The internship program has been part of Postbank's Corporate Social Responsibility Policy in support of young people for over 12 years. To promote its internship program, in 2019 the Bank also created a series of videos about the personal success story of people from the team who started working at the Bank as interns and reached management positions, as well as stories of current interns in the financial institution. Postbank also joined the largest career event for qualified people - Career Show 2019.

For another year, Postbank supported the conference of Bulgaria ON AIR and Bloomberg TV Bulgaria - Education and Business. The international forum brings together representatives of leading companies that work every day for young people's development.

In 2019, Postbank joined a charity initiative to donate medical equipment to support the treatment of premature infants, valued at over BGN 50,000, to six hospitals in the country. The Children's Day donation campaign was organized by ABB and Premature Children Foundation with the participation of ABB members.

For a consecutive year, Postbank, as a member of the Association of Banks in Bulgaria (ABB), has been involved in a European campaign to combat financial mules.



In June, Postbank was once again a major partner of the charity relay run Postbank Business Run, organized annually by the Begach Club. It featured a record number of participants - 306 teams from 119 companies from different sectors competing in support of two causes. Funds raised - over than BGN 11,000 will be donated as 12 scholarships as a part of "Continue Program" of the National Foster Care Association and the BCause Foundation supporting students in foster care to continue their successful performance in school and to the Water Way Foundation project to provide water rehabilitation for children with disabilities. Once again in 2019 the

largest regional business competition Business Run was held, with Postbank again among the partners, this time in Varna and Plovdiv.

A team from Postbank joined the Run2gether Bulgaria Charity Run for the second consecutive year in Sofia.

Representatives of the Bank joined as volunteering judges the Republican Championship of Road Safety and Applied Cycling for Children. It was attended by 10 teams from Sofia, Berkovitsa, Silistra, Chelopech, Etropole and Parvomay. The financial institution awarded the winners of the race.

Postbank is the only bank in Bulgaria which has a Green Board and an Environmental Office Unit within its organizational structure that works to protect the environment, both in terms of limiting the resources used by the Bank and in terms of its financing activities. In addition, members of the board organize various outdoor initiatives involving other employees.

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Postbank Volunteers planted 500 trees as part of the company's Green Together environmental program and its sustainable environmental policy. More than 70 employees participated in the action to create the New Forest of Sofia.



In July 2019, volunteers from Postbank completely transformed a trail in Zlatni Mostove (Golden Bridges) area on Vitosha Mountain jointly with the team of the Nature Park and Vanja and Evgeniya Džaferović, who appreciated the cause and actively participated in it. The Outdoor Green Stories initiative is part of the company's sustainable environmental policy, which shows how, with a concerted effort, we can change the environment around us for the better.



With a cycling tour ended the final of the initiative of the UN Global Compact Network Bulgaria "Turning the Wheels for More Air", which is carried out with the support of Postbank. The cycle of the events focused public attention on important issues such as damage from air pollution and good environmental practices.

Postbank won first place in the Eco Employer category of the Career Show 2019 Awards, in which a jury evaluated the best practices of companies. The Bank was honored for its overall corporate social responsibility with a focus on the environment.

The employees of Postbank are also regular donors to the National Center for Transfusion Hematology and participate in blood donation events organized and held at the Head Office of the company.

Throughout the year, the Bank continued its long-standing support and work with disadvantaged groups and the promotion of their active role in society. Support was provided to disadvantaged children in the town of Kazanlak, the elderly in the city of Ruse, the national Easter campaign for everyone - Give a Gift to Grandparents, as well as many other smaller initiatives throughout the year.



