

FINANCIAL AND SUSTAINABILITY REPORT

2018



Postbank



**Financial
and business review**

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TALENTS
WIN GAMES,

*teams win
championships.*

***FINANCIAL
AND BUSINESS
REVIEW***



Dear Shareholders,

I am proud to report to you yet another record-setting year in the history of Postbank. We reached a net profit of BGN 157 million – a 16% increase, compared to the previous year. The return on capital remained in the two-digit range, standing at 12.7%, compared to 11.2% in 2017, while the return on assets exceeded 2% (2.12% in 2018, compared to 1.94% in 2017). Postbank occupies a strategic place in retail and corporate banking in Bulgaria. We consolidated our position as one of the leaders in the market of credit and debit cards, housing and consumer lending, savings products, as well as products for corporate consumers – from small to large global companies operating in Bulgaria. Postbank is among the lenders with the best developed branch networks and modern alternative banking channels, which provides us with a really favourable position so that we can achieve even greater success in the next years.

Data of the National Statistical Institute as at end-2018 show that the unemployment rate reached another minimum of 4.7% – an unprecedented achievement in the modern history of Bulgaria. Bulgaria's economy was in really good shape in 2018. The real growth rate remained stable, exceeding 3% in the last four years, and the trend is expected to continue in the next few years. Nonetheless, the slowdown of the global trade and, particularly of the economies of the EU countries, had a negative impact on the Bulgarian economy. The country saw a 3.1% growth on an annual basis in 2018 which was lower than the one in 2017 (3.5%), but still one of the highest in the EU.

The favourable macro-economic framework changed the sentiments of Bulgarian consumers which drove up their consumption. It increased at a steady pace, compared to the previous year, while growth of investments was also very high. Investments are expected to continue increasing steadily in 2019 due to the planned launch of several big infrastructural projects. This is why, the lower GDP growth rate came only from the contribution of the foreign sector. Exports had a negative contribution for the first

time since the economic crisis. At the same time, imports continued increasing although at a slower pace than in 2017.

We could definitely state that 2018 was one of the best, if not the best, year for the Bulgarian banking system. Banks' net profits jumped by 43% to BGN 1.68 billion although half of the net increase resulted from one-off factors such as dividends received and other extraordinary revenues, and not from core business.

Lending saw an increase thanks to the positive macro-economic framework and the higher loan demand both by companies and households. Gross loans went up by 8.6% to BGN 60.9 billion, reaching their highest level since the financial crisis.

Postbank reached new heights in its financial results in 2018. Loans and deposits saw a stable increase, revenues improved and impairment costs went down. The market environment was favourable in 2018, enabling us to continue with organic growth and improve the position of the Bank, especially regarding deposit gathering. Consumer deposits increased by 12% on an annual basis to BGN 6.8 billion, considerably exceeding the market growth. We focused on gathering more corporate deposits in order to achieve large volumes fast, to improve the structure of our deposit portfolio and maintain our liquidity buffers. Corporate deposits went up by 24% in 2018 to BGN 1.77 billion and by 2.5 pp to 26% as a share of all deposits.

Loan interest income increase matched the one of the net loans – 9.6% (BGN 25 million) up to BGN 283 million. Total interest income grew by the same amount (BGN 25 million) to BGN 323 million, as the higher income from placements with banks and derivatives compensated the lower income from hedging and securities. In 2018, interest expenses saw a decrease of another 18% (BGN 2.6 million) to just BGN 11.5 million, which probably happened for the last time since there is no room for them to fall further in order to compensate the rising deposit volumes. Net interest income saw a nearly 10% rise on an annual basis (BGN 27 million) to BGN 312 million. The net revenues from fees and commissions also saw an increase, although a more modest one, of 3.2% (BGN 2.6 million) to BGN 83 million. The goal of turning Postbank into customers' main transactional bank yielded positive results and led to a stable increase in the revenues from monetary transactions, account maintenance and sale of services.

We kept Postbank's leading position as Bulgaria's biggest custodian bank, being a company serving the largest number of collective investment schemes, and were named a top-rated custodian in Bulgaria for the seventh consecutive year. The recognition comes from Global Custodian – a prestigious magazine covering capital markets, asset management and investments.

In the environment of constantly changing digital world, we continued offering modern bank products and services, which are unique for the market and create added value for clients. They are a part of our long-term strategy for developing digital solutions and innovative banking channels in the name of clients' convenience. To meet the expectations of the modern consumers, the Bank continued investing in one of its most innovative services – the consumer lending centres, Momento, which for just one year proved as a modern and convenient way for fast and easy financing thanks to their key locations and extended working time.

Postbank continued developing its consumer and housing lending centres which serve the clients across the country. Three brand-new digital branches with a self-serving zone and many other customer-centred amenities are planned to open in 2019.

Postbank's latest financial solution which changed the banking market is EVA (Electronic Virtual Assistant) – Bulgaria's first chatbot which provides useful and well-structured information about various bank products such as consumer loans, credit cards and debt consolidation programmes. By launching EVA, we made yet another step in putting into practice innovative financial solutions and services, which make bank operations as easy as possible for consumers.

Beside the new products, the Bank offered numerous other benefits in 2018 – an option of additional discounts, cash bonuses via the innovative payroll account, Super @ccount, Western Union transactions

directly to the bank's ATMs, mobile bank experts who consult clients at a time and place arranged in advance.

Social contribution remains an inseparable part of our mission. We are a socially responsible company which deems investment in the development of a sustainable business an important component of its activities. We implemented many socially significant projects in the area of education, environmental protection, sport and corporate donation in 2018. We are an active member of and support many of the initiatives of our partners, members of the Confederation of Employers and Industrialists in Bulgaria (CEIB), AmCham, HBCB, the Association of Banks in Bulgaria, Borica, Endeavor Bulgaria, the Bulgarian Business Leaders Forum, Bulgarian Donors Forum, Atanas Burov foundation, the UN Global Compact Network Bulgaria, the Bulgarian Association of Advertisers, and the Bulgarian Fintech Association.

The education of Bulgaria's children and young people has always been a part of the corporate social responsibility projects we develop and support. This is why, on the eve of the new school year we launched a joint project with one of the most modern and innovative educational institutions in the country – SoftUni in support of Bulgarian education. It includes various activities designed to prepare young people for the jobs of the future and a career in Bulgaria. Entering the strategic partnership, the two organizations aim at encouraging students to develop their potential as IT and digital leaders, prepared for the dynamically changing environment and new banking trends. The project is part of our digitalization strategy and comprehensive corporate social responsibility policy.

In support of education as a key sector for the Bulgarian market, in 2018, we supported the National Trade and Banking High School in Sofia for yet another year by committing to mentor one of the training banks.

The care for the environment and local communities is a part of our business model, through which we are striving to save resources and leave a smaller environmental footprint from our activities. This is why, we are proud to say that we launched in 2018 the second edition of one of our most successful internal initiatives, Heroes in Green. Thus, together with the entire Postbank team, we continue seeking and finding new ways of environmental conservation. All of our employees have an opportunity to apply and present their ideas.

Our efforts in 2018 were highly evaluated and we won numerous prestigious awards, becoming one of the most awarded banks in the Bulgarian market.

Our business efforts and results were awarded when Postbank was named the best retail bank in Bulgaria for 2018 in the prestigious contest, World Finance Banking Awards 2018 of World Finance magazine. We are the only financial institution in Bulgaria which has been awarded in the category since the launch of the contest in 2010. The award is a recognition of the Bank's high results achieved thanks to its innovative and sustainable retail banking model, modern products and services, broad branch network of convenient offices across the country and long-term growth strategy.

The financial institution won the Best Trade Finance Bank in Bulgaria award in the annual chart of Global Banking & Finance Review.

The Bank won also the prestigious award in the Dynamics of Development category of the annual contest of the Association of Banks in Bulgaria.

In March, the global leader in the payment services, Western Union, bestowed a special award to Postbank for its service enabling consumers to receive monetary transactions via Western Union to any Postbank ATM in Bulgaria. The award was given for innovations as a recognition of the efficiency and flexibility of the solutions the Bank develops for its clients.

We won a total of four awards in the prestigious PR and communications contests, BAPRA Bright Awards and PR Prize 2018, for our successful corporate social responsibility policy and corporate communication. In 2018, we also received a silver Effie for one of our most innovative services – the consumer loans centres Momento.

I am glad Postbank won the prestigious Employer of the Year award in the first annual contest, Employer Branding, of b2b Media. The award was given as a recognition of the entire strategy of the financial institution for building an employer brand that has the prospect to successfully attract, manage and retain talents. It includes various activities for management, improvement of the working environment, opportunities for professional growth and the engagement of employees in projects and campaigns in support of the community and for improving the environment.

All these great achievements would not have been possible without the motivation and active participation of our most valuable asset – our employees. I would like to express my gratitude to them because our results would not have been possible without their dedication, loyalty, ambition and hard work. I would like also to thank our colleagues in the Head Office for the cooperation, support and advice, which contributed substantially to our achievements.

We continued to firmly support the sense of initiative, creativity and willingness of every employee to be a part of the growth and success of our bank. This is proven by the Good Ideas contest, in which all employees can present their ideas for optimization of the work process directly to the Bank's management. The best proposals were implemented in the Bank and were awarded.

Postbank's employees are also regular blood donors at the National Centre for Clinical and Transfusion Haematology, and take part in blood donation actions, organized and implemented in the Head Office, for which I thank them with all of my heart!

In 2018, we launched an internal donation programme for support of colleagues with health issues, called Together. The donation programme has been planned as one of our long-term projects aimed at building on our continuous efforts in inspiring loyalty and care for our employees. The goal of the programme is to create a spirit of solidarity among our colleagues and become a working mechanism for financial support of employees with serious health issues. That is why I believe that as one strong team which faces the good and bad moments together, we will extend a hand to assure support for those of us who are in a difficult situation. Together we can achieve everything and we can be a support for the colleague next to us and for the friends with whom we work every single day. I believe that there is not a better investment than the one in our future. The small gestures are the big power of good-hearted people.

Postbank's 2019 main financial goals will include improving the Bank's profitability, expanding the credit portfolio and, at the same time, maintaining the liquidity buffers, reducing the volume of non-performing exposures and diversifying the Bank's revenue sources.

All these steps will be taken alongside our main strategic goal – the successful acquisition of Piraeus Bank Bulgaria AD (Piraeus Bank Bulgaria). Postbank and Piraeus Bank S.A. signed a preliminary contract in November 2018 for the acquisition of the latter's subsidiary, Piraeus Bank Bulgaria. We expect the deal to be finalized in 2019 after obtaining all the required regulatory permits. The acquisition of Piraeus Bank Bulgaria creates a unique opportunity for Postbank to improve its market position and become Bulgaria's fourth biggest bank by assets and the third top bank by credit portfolio and deposits. The finalization of the deal will improve the financial results of the Group in Bulgaria and is expected to be a key event in its international strategy with a focus on markets on which it is a leader.

We will also continue to invest in order to offer better products and excellent customer service through the Bank's branch network and digital channels. Our long-term strategy remains the same – turning Postbank into the main, preferred bank of its clients, which meets their constantly increasing expectations, thereby creating value for them and the Bank's shareholders.

Sincerely,
Petia Dimitrova,
CEO and Chairperson of the Management Board of Postbank

BANK PROFILE

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

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

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



In the beginning of February 2019, Postbank received the prestigious Employer of the Year Award from the Annual Employer Branding Awards of b2b Media. The prize was awarded for the financial institution's overall strategy for building an employer brand with prospects to successfully attract, manage and retain talents. It includes various activities focused on the management, improvement of the working environment, opportunities for professional development and involving employees in projects and campaigns in support of the community and the improvement of the environment.

In June 2018, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's long-term rating of BBB-, with stable outlook.

In 2018, Postbank continued developing modern banking products and services, which are unique for the market, and provide real added value to customers. To meet the expectations of the modern consumer, the Bank invested in the development of Momento centres, an initiative which won the silver Effie award for 2018. Momento is the brand of consumer financing hubs of the Bank, which with their key locations and extended office hours provide a convenient alternative for fast and easy financing.



Postbank received Bulgaria's Best Retail Bank 2018 award in World Finance magazine's prestigious competition, World Finance Banking Awards 2018. Postbank is the only financial institution in Bulgaria which has received an award in this category since the launch of the awards in 2010. Postbank was recognized for its remarkable achievements which are the result of the institution's innovative and sustainable retail banking model, the modern products and services the Bank has developed, its wide network of comfortable offices throughout the country and long-term development strategy. The Bank also won the prestigious award in the Dynamics of Development category of the annual awards of the Bank of the Year Association.

In March, the global leader in payment services, Western Union, awarded Postbank with the special prize for the service enabling Western Union money transactions via each of the Bank's ATMs in Bulgaria. The prize is awarded for the innovation as recognition of the efficiency and flexibility of the Bank's decisions in serving its clients.

Global Custodian, the world's most prestigious magazine covering custodian services, known for its annual surveys regarded as a benchmark in the sector, declared Postbank the top custodian in Bulgaria for a seventh consecutive year. The Bank once again achieved the highest scores in all categories.

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



Postbank expanded the opportunities for profitable business financing. The Bank and the Black Sea Trade and Development Bank (BSTDB) will jointly provide EUR 58.3 million (EUR 32 million and 26.3 million, respectively) to help finance the construction of a Marriott hotel in Sofia, the first hotel of the reputed international chain in Bulgaria. The operation aims at meeting the growing demand for high-quality business and tourist accommodation and conference facilities in the Bulgarian capital. The construction of the 232-room Marriott hotel is to be completed in 2020.

For the fourth consecutive year in 2018, the Bank supported the National contest of 24 Chasa Daily – The Big Small, because it attaches importance to the development of small business.



Throughout the year Postbank continued holding its series of specialized conferences in support of the business in the country, Postbank Meets Business. In 2018, the Bank's team visited Sofia, Blagoevgrad, Plovdiv, Dobrich and Montana. At the meetings, Bank's experts presented to local business representatives strategic solutions in support of their business.

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

For yet another year Postbank supported innovations in the sphere of financial services and is inviting its partners to join the third regional contest for development of financial technologies, Beyond Hackathon, which is part of the Eurobank's Innovations Centre initiatives. The Bank invites start-ups and people from Bulgaria working in the area of financial technologies – software developers, graphic designers, data analysts and business development and marketing experts.

NEW PRODUCTS

In 2018, Postbank introduced more innovative products and services focusing on providing convenience and additional benefits for its customers.

EVA (Electronic Virtual Assistant), the first bank loan chatbot in Bulgaria, is one of Postbank's latest financial solutions. It is available 24/7 to provide useful and well-structured information about different banking products such as consumer loans, credit cards and loan consolidation programmes. By launching its own chatbot, Postbank made yet another step in the introduction of innovative financial solutions and services that facilitate users as much as possible. The chatbot is a software solution which allows to reply automatically to the most frequently asked questions through text, photos, links and other means. It is an electronic virtual assistant which remotely consults consumers faster and through the devices mostly used by them. The chatbot is a modern and increasingly preferred mode of communication because it improves the service process; it offers consumers personalized services and provides user-friendly experience.

In 2018, Postbank released an innovative service for those consumers who prefer receiving a debit card at the moment they submit their application in an office. Issuing debit cards now takes a maximum of 15 minutes. The service is available in selected bank offices. Timely issuance of debit cards saves valuable time and combines a high level of security with quick access to all the features and facilities the cards provide. The new service is part of Postbank's strategy of offering modern financial solutions, fully tailored to their requirements.

In March, the Bank launched a new service after carrying out an in-depth survey into consumers' attitudes – receiving Western Union international money transfers via Postbank's ATMs. The new service enables clients to receive money transfers from 200 countries via the Bank's ATMs. The service is convenient, easy to use and accessible 24/7. The receiver of a Western Union money transfer must have a debit card linked to a payment account in BGN or other currency, issued by the Bank.

Mobile Bankers service was recognized by our customers as convenient. The service is a free-of-charge professional consultation, as experts provide solutions tailored to the specific needs of customers and assist them in filling in the required documents and their submission in a bank office. At a place and time of customers' choice, the mobile bankers answer all questions related to consumer and housing loans, overdrafts and credit cards.



Postbank continued its partnership with Booking.com, the world leader in providing accommodation, as all holders of Mastercard and Visa credit cards issued by Postbank receive an additional 3% discount for each booking in Bulgaria or abroad made via Booking.com through the Bank's website.

The Bank continued offering its customers the More Today lending programme. It allows customers to increase their disposable income by up to 50% and in certain cases by even more. It includes a wide range of lending products with which customers can consolidate their debts on credit cards, consumer and mortgage loans of up to BGN 100,000 quickly and easily. Beside the better personal finance management, the programme allows users to save time, paying one higher instalment in one bank on a set date. The More Today lending programme is one of our most successful products. The Bank was recognized at BAPRA Bright Awards for the communications campaign of loan programme More Today in the Debut of the Year – Campaign for New Product or Service category.

Additionally, Postbank observed growing interest in home lending. The increase in real property purchases contributed to a hike in housing loan applications, compared to the same period last year. The Bank's portfolio indicated that mortgage lending continued to be on the greatest demand in the major cities of Bulgaria – Sofia, Plovdiv, Varna, Burgas and Stara Zagora.

In February 2018, Postbank strengthened its image of a modern and digital bank by enriching its presence in social networks by launching an Instagram profile. The Bank was awarded in the Banks category at the 10th edition of the one-of-a-kind consumer ranking, My Lovemarks 2018.

AWARDS DURING 2018:

- Best Trade Finance Bank in Bulgaria award according to the annual rankings for 2017 by Global Banking & Finance Review;
- A special award for innovations from Western Union for the service – Western Union money transactions via each Postbank ATM in Bulgaria;
- Award for the seventh consecutive year for the best bank for custodian services from Global Custodian magazine;
- The Best Bank in Retail Banking in Bulgaria 2018 award at the prestigious World Finance Banking Awards 2018 by World Finance magazine;
- Prestigious award Employer of the Year at the second annual Employer Branding Awards by b2b Media;
- Development Dynamic business award from the annual awards of the Bank of the Year Association;
- Award in category "Banks" from the 10-th edition of the one of a kind consumer ranking "My Lovemarks 2018";



- Accolade from BAPRA Bright Awards for communications campaign for the More Today credit programme in the Debut of the Year – Campaign for New Product or Service category;
- Award in the International Communications Division of the Year category from PR Prize 2018 – 3rd place;
- Distinction in the Communications Campaign for Employer Branding category from PR Prize 2018 for the project Together at the Top – Annual Strategy for Employer Brand Empowering – 2nd place;
- Award in the Green Communications in Urban Environment category from PR Prize 2018 for the Heroes in Green internal initiative – 2nd place;
- First place in the New Service category of the 5th edition of the BAAwards contest for the real estate loans campaign, No Interest Finish;
- Silver Effie for one of the most innovative bank services – consumer loans hubs, Momento;
- Award for a strategic project with SoftUni in the Education, Training and Development category of the annual charity and corporate social responsibility awards, Golden Heart of Business Lady magazine;
- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board won the Most Renowned Bank on the Bulgarian Market award – the Burov accolade for 2017;
- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board, received the prestigious Mrs Ikonomika (Mrs Economy) award at the Mr and Mrs Economy 2018 contest", organized by Economy magazine and the Confederation of Employers and Industrialists in Bulgaria.



FINANCIAL REVIEW

WORLD ECONOMY

In 2018, the global economy continued its expansion at a slightly slower pace of 3.7%, compared to the previous year's 3.8%. In the second half of 2018, there was a noticeable slowdown in industrial production, trade and business confidence, which eased the growth in the last two quarters. A major reason for this was the prospect of a new trade war – USA, China and other countries raised their tariffs and although the worst actions were postponed, there was still a chance of a renewal of the conflict. The volatility of oil prices in the second half of the year, although relatively stable since the beginning of 2019, also created some tension. The stronger US dollar caused market volatility and rising risk premiums led to capital outflows in some of the emerging countries. All these weaknesses affected the growth projections for the next two years, which now stand at 3.5% and 3.6%.

The downside risks for growth forecasts include the political uncertainty surrounding the trade negotiations, which may cause a full-scale trade war, the sentiments on the financial markets and the uncertainty surrounding Brexit.

The growth of the EU economy is also slowing down – from 2.4% in 2017 to 1.9% in 2018. This was expected to happen as the economies in some member states were running over their potential rate, but the severity and the duration of the slowdown exceeded expectations. The weaker trade growth significantly affected the Eurozone countries which maintain strong connections with the affected ones. Nevertheless, the EU economy has not entirely lost its potential for further growth and it will continue to expand in the next years, albeit at a slower pace. The forecast for the 27 countries that will remain in EU is 1.5% and 1.7% for 2019 and 2020, while in the euro area it is slightly lower at 1.3% and 1.6%, respectively.

The major economies are already on the path of a tighter monetary policy. In the USA, the Federal Reserve continued raising the Federal Funds Target Rate to 2.25-2.50%, while in Europe, the ECB ended its net asset purchases in December 2018 as planned. With the growth prospects in the Eurozone still not solid enough and with the many uncertainties regarding the effect of Brexit on the EU economies, the ECB is expected to keep the accommodating monetary policy for the better part of the year and will not change the rates until at least the autumn. ECB will also continue to fully reinvest the maturing securities for the time being, thus not taking liquidity out of the system.

ECONOMIC SITUATION IN BULGARIA

The Bulgarian economy has been growing at a steady pace of over 3% in the last four years and the projections for the next few are also positive. Nevertheless, the slowdown in the world trade and, more importantly, in the economies of the EU countries had an impact on the local one too. In 2018, the economy grew by 3.1%, lower than in the previous one (3.6%), but still one of the highest among the EU countries.

The positive macroeconomic framework changed Bulgarian consumers' sentiments and consumer spending increased. Consumption grew at record rates reaching 6% in 2018. Investments also performed extraordinarily well, reaching a 6.5% annual increase. Investments growth is expected to continue in 2019 when some large infrastructure projects are to be launched.

The lower GDP growth was thus solely due to the foreign sector. The contribution of exports was

negative for the first time since the crisis. At the same time, imports went up (3.7%), albeit at a slower pace than in the previous year.

Total exports (at FOB prices) rose moderately by 1.2% in 2018 to BGN 55.3 billion. The modest results masks two distinctively separate trends. The export to EU countries, the main trading partners of Bulgaria, was rising steadily, by 9.2% to BGN 37.7 billion. On the other hand, trade with third countries was negative, down by 12.5% to BGN 17.6 billion. More than half of the decrease in the volume resulted from Bulgaria's two main non-EU trade partners of Bulgaria, Turkey and Russia, and was caused by the crisis and the volatile oil prices. At the same time, trade with the other countries in Top 5, namely China, Serbia and the USA, went up by two-digit rates. Imports rose by 6.3% to BGN 62.9 billion, with raw materials and machines accounting for the larger part of it. Trade deficit continued increasing, reaching BGN 7.7 billion in 2018, up from BGN 4.6 billion in 2017.

Foreign direct investments increased by 10% in 2018 to EUR 1.533 billion. About a half of the investments were in the form of debt instruments – their level in 2018 was EUR 703 million (one-third lower vs. the previous year). Equity investments stood at EUR 566 million, but included the EUR 600 million increase of the share capital of DSK Bank for the acquisition of SG Expressbank, which will be recorded as outflow in the beginning of 2019. The reinvested profit, however, doubled compared to 2017 to EUR 264 million despite the significant outflow in the first half of the year in the form of dividends paid by the local subsidiaries of foreign multinational companies. The Netherlands accounted for the biggest share of investments, followed by Germany and Belgium.

Standing at 2.7% at the end of 2018, the consumer price index was only slightly lower than a year ago. Inflation was driven by the prices of the energy resources and services. The prices of homes and utilities rose by 4.6% mainly due to a price increase of the heating by almost 15%, caused in its turn by the 12.1% increase of natural gas price. The prices of restaurant and hotel services, and entertainment rose by similar rates – 4.6% and 4.5%, respectively. Food prices were higher by 2.6%, as bread and grain became more expensive by 11%. The prices of clothing and shoes were the only ones to drop by (1.8%). Inflation is expected to remain over 2% in the next year, as the rising salaries continue putting pressure on the prices of services.

According to the National Statistical Institute, the unemployment rate hit a new low of 4.7% at the end of 2018, the lowest registered level in recent years. Last year alone, the rate decreased by 0.9 percentage points and the number of unemployed people fell by 35 thousand to 154 thousand. Several positive trends can be seen in the data. The unemployed in every age group decreased, including the range between 15 and 25 years where the rate fell to below 10%. In addition, the number of long-term unemployed people (two or more years) also decreased, reaching a new low. Even the number of unemployed with basic or no education decreased by 10 thousand although its share of the total number of unemployed remained stable. The employment rate of people aged 15-64 was 67.7%, slightly higher than the previous year, and there was not much room for a further increase. On the other hand, the number of employed decreased by about 20 thousand last year which was a consequence of the worsening demographic trends. The northwestern part of the country still has the highest unemployment rate of 11.4%, while in the southwestern (including Sofia) and southern regions, the unemployment rate stood at just 2.5% and 3.8%, respectively.

The average salary rose by 7.3% in 2018 to BGN 1,205. The shortage of skilled labour force was acute and the salaries of the highly-educated professionals increased by two-digit figures last year. Salaries in the finance sector rose by 10.4% to BGN 2,047 and even higher in the ITC sector going up by 16% to BGN 2,926.

The state reported a budget surplus for a third consecutive year. Unlike the previous two years, the surplus in 2018 was just BGN 137 million (0.1% of GDP), which resulted from a surplus of BGN 252 million in the national budget and a BGN 115 million deficit in European funds. Like in the previous years, the budget was running on a huge surplus throughout the year, reaching BGN 2.9 billion (2.7% of GDP) in November 2018, but in December, the government approved additional spending, including funds for some ministries and municipalities, as well as BGN 250 million for the army. However, the biggest additional expense by far was BGN 1.3 billion designated for the construction of Hemus motorway.

Budget revenues exceeded the forecast by 1.5% (BGN 300 million) and stood at BGN 23.8 billion. Tax revenues rose by 7.4% (BGN 1.5 billion) with two-thirds coming from VAT, another BGN 330 million (10% YoY) from personal income taxes and BGN 170 million – from corporate taxes (6.8% YoY). The annual expenses stood at BGN 23.8 billion, or about 98.7% of the budgeted amount. In 2018, however, the capital expenses were higher than budgeted – BGN 2.5 billion, or 10% above budget. Taking into account that more than half of this amount was designated for the construction of Hemus motorway, which was not originally budgeted, it seems that the government is still not able to implement its original investment plans.

With the budget being in a surplus, the government did not issue any new debt in 2018. The government debt decreased by EUR 800 million to EUR 12.2 billion (22.1% of GDP), mainly due to the government bonds maturing at the beginning of the year. The Bulgarian government is planning to balance its books in 2019 and no new international bond issues are expected.

In 2018, all three major credit rating agencies confirmed the credit rating of the country. The rating of Bulgaria according to Fitch was BBB (long-term rating in foreign and local currency, with stable outlook), according to Moody's – Baa2 (both in local and foreign currency, with stable outlook) and according to S&P – BBB- (again in local and foreign currency). S&P changed the outlook in the middle of the year from stable to positive.

BULGARIAN BANKING SYSTEM

In 2018, the Bulgarian banking system had one of the best, if not the best, year on record. The net profit of the banks rose by 43% to BGN 1.68 billion although half of the net increase was not coming from core business, but resulted from one-off factors such as large dividends paid and other extraordinary income.

The lending was booming buoyed by the positive macroeconomic framework and the higher demand for loans by both companies and households. Total loans rose by 8.6%, the highest level since the crisis, to BGN 60.9 billion. Part of the increase came from the branch of BNP Paribas Personal Finance, which was included in the banking system in the second quarter of 2018, adding some BGN 650 million to the official data about the system, but this effect is minor compared with the total delta of BGN 4.8 billion. New loans were almost evenly split between companies and households. Corporate loans rose by 7% to BGN 38.8 billion, while mortgage and consumer loans grew by 15% to BGN 10.9 billion and 13% to BGN 10.3 billion, respectively. One of the reasons for the higher demand for loans was the falling interest rates. Only in the consumer lending segment the rates had risen since the middle of the year, but this was ascribed more to the changing profile of customers and the new player in the market (BNP Paribas PF) rather than to the beginning of a long-term trend.

Another reason which facilitated lending and kept rates low was that the Bulgarian banks continued attracting considerable liquidity. 2018 was a record-setting year in terms of new deposits entering the system. In nominal terms deposits rose by BGN 6.2 billion (7.9% YoY) to

BGN 84.6 billion, BGN 1.3 billion above the nominal growth of loans, thus adding more surplus liquidity to the system. The loans-to-deposits ratio was up by 1 pp to 76%.

Deposits of nonfinancial companies, other financial companies and the state grew by 7.7% (BGN 2.2 billion) to BGN 31.2 billion, while household deposits went up by 7.9% (BGN 3.9 billion) to BGN 53.4 billion. The saving rate did not seem to subside and even increased compared to previous years although interest rates were close to zero. On average, the banks in Bulgaria paid only 0.14% on the gathered deposits at the end of 2018, down by 6 bps from a year ago, as trend was already going flat.

The decreasing rates on deposits allowed the banks to achieve some saving on their interest expenses which were 20% lower (BGN 71 million), compared to 2017. At the same time, the increasing lending volumes managed to partially offset the lost income from lower loan rates and the interest income was virtually flat at BGN 3.04 billion. Net fees and commissions income rose by 7% (BGN 70 million) to BGN 1.07 billion. Total income also increased – by 8.7% (BGN 336 million) to BGN 4.22 billion although it was inflated by the one-off payment of dividends, bargain gain and a sale of investment real estate recognized by some banks. Total expenses grew by 6.1% (BGN 109 million) to BGN 1.9 billion. About 40% of the net increase came from BNP Paribas Personal Finance, with much of the rest coming from provisions for restructuring accrued by one of the biggest banks in Bulgaria.

Provisions for impairment dropped by more than one-third (BGN 267 million) to BGN 478 million. This effect was to be expected as UBB booked a significant impairment charge in 2017 of BGN 218 million, inflating the base, while in 2018, after the merger with Cibank, its charge was negative (-BGN 21 million). Efficiency and profitability ratios in the system improved – the cost-to-income ratio was down by 1 pp to 45.4%, while the return on equity stood at 12.7%, or 3.2 pp above the level a year ago.

The quality of the lending portfolio is also improving steadily. The non-performing exposures (NPE) ratio was 14.8% in 2017 and 11.1% in 2018. Total NPEs decreased by BGN 1.5 billion to BGN 6.8 billion due to write-offs and sales of portfolios. Still, there are BGN 4.2 billion NPEs in the system which are more than 180 days overdue. The capital adequacy ratio decreased from 22.1% in December 2017 to 20.4% in December 2018, as the growth of the risk-weighted assets outperformed banks' capacity to generate capital, while at the same time some of the biggest foreign-owned banks paid a significant amount of dividends to their shareholders. The CAD ratio of the system was also boosted at the end of 2018 by the EUR 600 million share capital increase by DSK Bank for the acquisition of SG Expressbank. Nevertheless, the capital adequacy ratio is still well above the minimum required levels by BNB (13.5- 14% depending on the bank) which provides a solid buffer for future expansion.

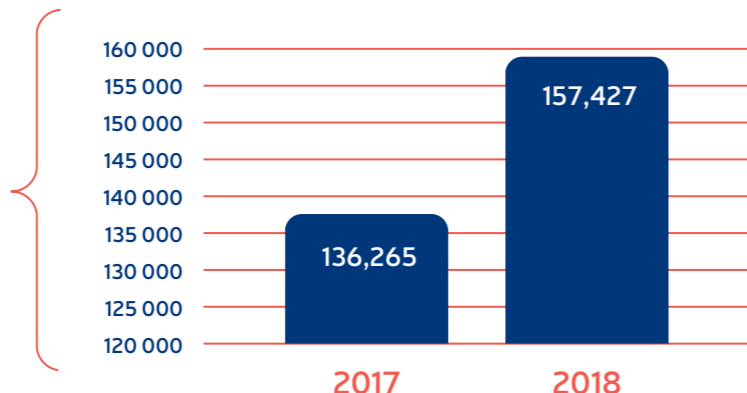
EUROBANK BULGARIA PERFORMANCE AND KEY INDICATORS

FINANCIAL HIGHLIGHTS

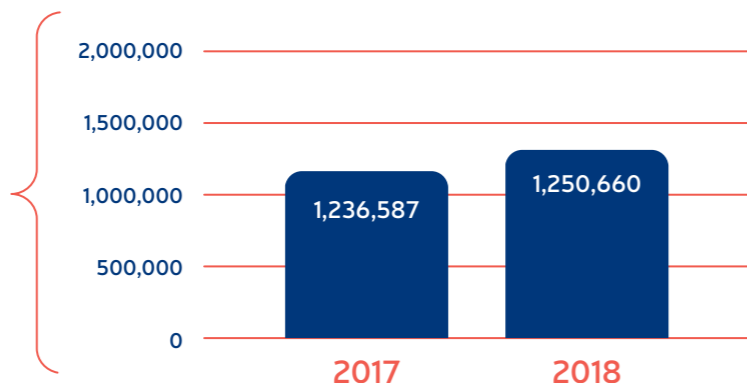
	2018	2017	
BALANCE SHEET (All figures in '000 BGN)	Net Loans and Advances to Customers	5,271,189	4,828,632
	Core Client Deposits	6,814,255	6,080,217
	Shareholders' Equity	1,250,660	1,236,587
	Total Assets	8,197,199	7,420,982
PROFIT AND LOSS STATEMENT (All figures in '000 BGN)	Net Interest Income	311,513	284,202
	Net Fee and Commissions Income	82,898	80,320
	Net Trading Loss/Gain	4,596	5,445
	Other Operating Income	566	1,205
	Total Operating Income	399,573	371,172
	Total Operating Expense	(144,207)	(131,635)
	Deposit Insurance Fund	(16,358)	(18,774)
	Impairment Charge for Credit Losses	(63,799)	(69,663)
	Profit Before Tax	175,209	151,100
	Income Tax	(17,782)	(14,835)
Profit After Tax	157,427	136,265	
KEY FINANCIAL RATIOS	Total Capital Adequacy Ratio	20.06%	21.77%
	Net Interest Margin	3.8%	3.8%
	ROA (after tax)	2.0%	1.9%
	ROE (after tax)	12.7%	11.2%
	Earnings per Share	0.28	0.24
	Total Funding	6,865	6,120
	Fees & Commissions/OPEX	57%	61%
	Cost of Risk	1.2%	1.4%
Provisions/Operating income	16%	19%	
Cost/Income Ratio	36.1%	35.5%	
Net Loans/Deposits Ratio	77%	79%	

Eurobank Bulgaria AD reached new heights in its financial performance. The Bank's loans and deposits grew steadily, income improved and provisions for impairment decreased. 2018's net profit set another record, reaching BGN 157 million, or 16% higher than the previous year. Return on equity remained in the two-digit range, rising to 12.7%, up from 11.2% in 2017, while the return on assets was above the 2% mark (2% in 2018, compared to 1.9% in 2017).

NET PROFIT

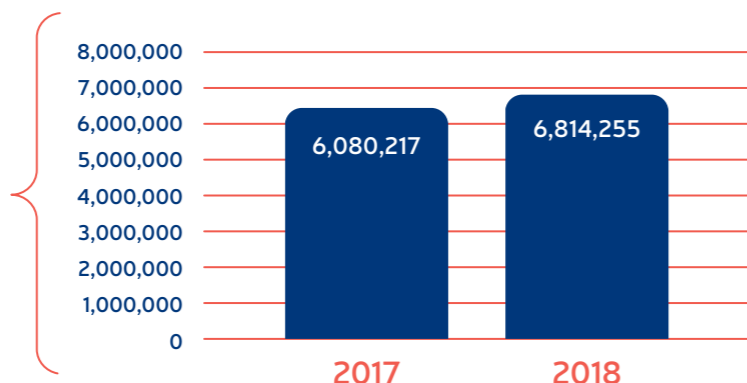


SHAREHOLDERS' EQUITY

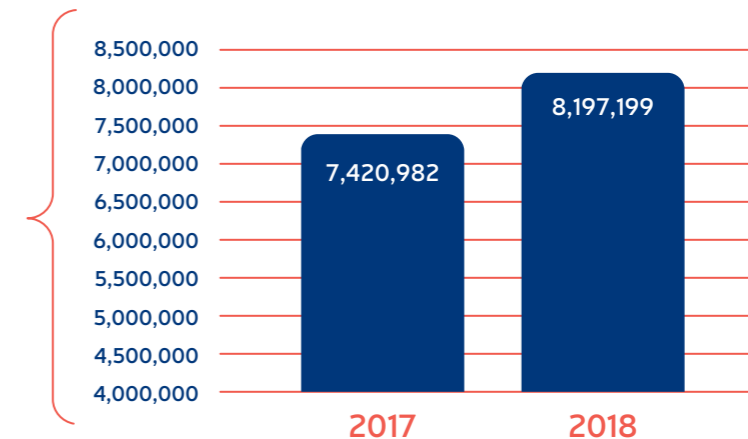


In 2018, the market environment was favourable which allowed the Bank to continue with its organic expansion and improve its positions, especially in terms of deposit gathering. Consumer deposits rose by 12% YoY to BGN 6.8 billion, outperforming the market by a wide margin. Postbank focused on gathering more corporate deposits in order to gain volumes fast, improve its deposit structure and keep its liquidity buffers. Deposits from corporate customers grew by 24% in 2018 to BGN 1.77 billion, while increasing by 2.5 pp to 26% as a share of the total deposits. Retail deposits (including deposits from small businesses) rose in line with the market – by 8.5% to BGN 5 billion.

CLIENT DEPOSITS



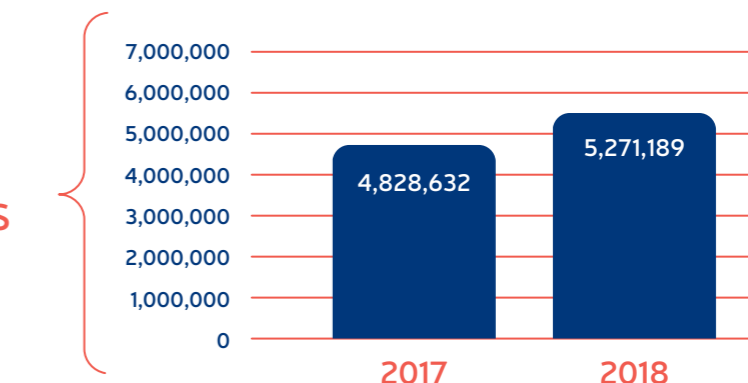
TOTAL ASSETS



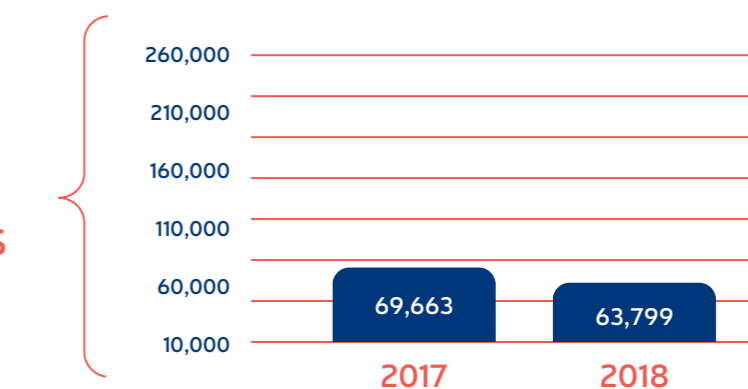
Liquidity buffers remained intact – at the end of 2018 Eurobank Bulgaria's liquid funds were almost 40% of the client deposit base. The Bank is fully self-funded and the deposits from clients were more than 99% of the attracted funds. Cost of funding continued decreasing and in 2018, Eurobank Bulgaria paid on average of 0.12% interest rate on its deposits, compared to 0.17% in 2017.

Gross loans rose by 8% (BGN 410 million) to BGN 5.6 billion. The reinvigorated demand for loans by the households balanced the growth between the retail and corporate lending in contrast to the previous year when 80% of the net delta came from the corporate segment. Corporate loans rose by 10% (BGN 212 million) to BGN 2.36 billion, while mortgages were up by 5.7% (BGN 95 million) to BGN 1.75 billion. The growth of consumer loans and credit cards sped up from 4.6% in 2017 (BGN 30 million) to 16.8% (BGN 114 million) in 2018, reaching a volume of BGN 792 million. Only the small business lending segment reported a negative delta – BGN 11 million (-1.6%) to BGN 700 million.

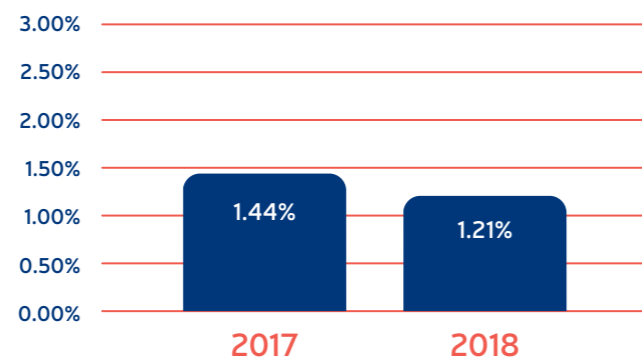
NET LOANS TO CUSTOMERS



IMPAIRMENT CHARGE FOR CREDIT LOSSES

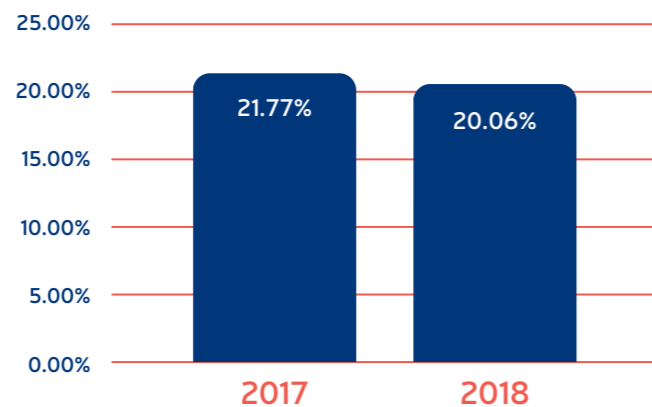


COST OF RISK



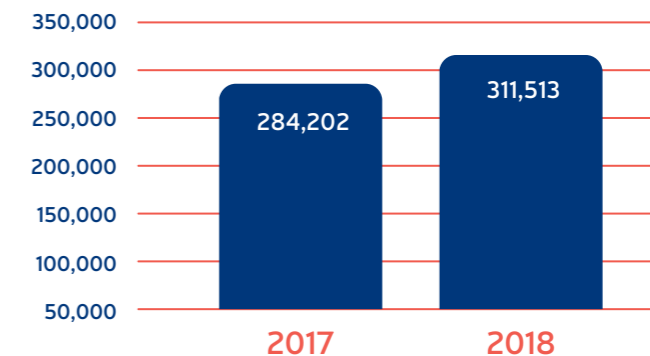
Net loans rose faster than gross loans (BGN 443 million, or 9.2% YoY) as the Bank continued implementing its strategy for reducing its NPEs through collection, write-offs and portfolio sales, supported by the accommodating market. The NPE ratio dropped by 470 bps to 11.5%, while the NPE coverage improved by 650 bps to 50.4%. The increase of the lending portfolio accounts for over 70% of the increase of the risk-weighted assets, the other significant drivers being the fixed assets (acquisition of the company which owned the head office building) and the RWA for operational risk (stemming from the rising revenues of the Bank in the last years). The CET1 and total capital adequacy ratio both stood at 20,06%, comfortably above the regulatory requirements.

CAD

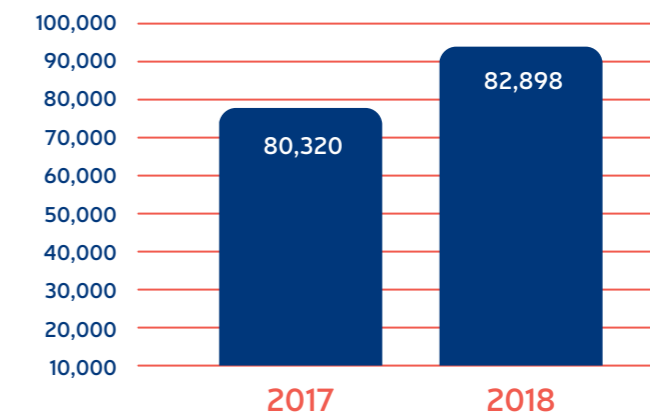


Interest income on loans rose YoY in line with the net loans – by 9.6% (BGN 25 million) to BGN 283 million. Total interest income grew by the same amount (BGN 25 million) to BGN 323 million, as the higher income from placements and derivatives was fully offset by the lower interest income from hedging and securities. In 2018, interest expenses further decreased by 18% (BGN 2.6 million) to just BGN 11.5 million, most probably for the last time, as the deposit rates cannot fall much further to compensate the rising volumes. 2018's net interest income grew by close to 10% (BGN 27 million) to BGN 312 million. Net fee and commission income was also up, although more modestly – by 3.2% (BGN 2.6 million) to BGN 83 million. The focus on becoming the main transactional bank for its clients was yielding results and the income from items, such as money transfers, account maintenance and sale of services, rose steadily. At the same time, the changes in legislation and the increased lending in local currency affected the fee income from loans and foreign exchange operations which had been significant sources of fees in the past.

NET INTEREST INCOME

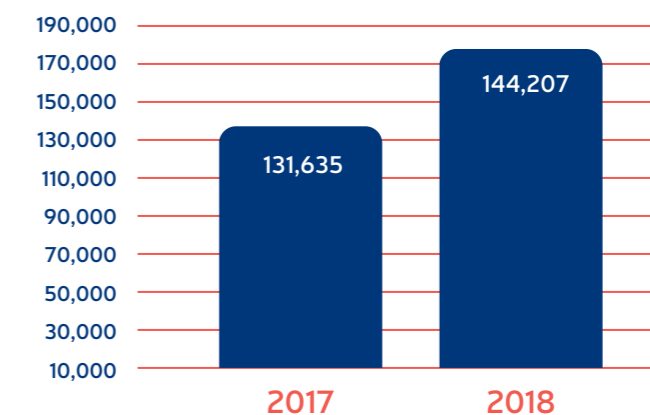


NET FEES AND COMMISSIONS

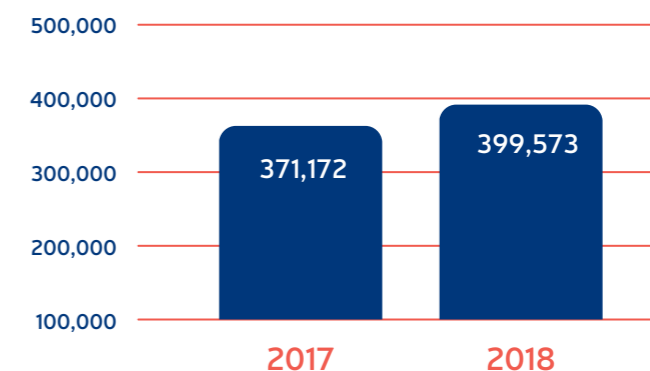


Operating expenses rose by BGN 12.5 million (9.5%) to BGN 144 million. In 2018, the number of staff remained almost unchanged, but staff costs grew by 21% (BGN 12.8 million). The cost-income ratio stood at 36%, roughly the same as in 2017, being still one of the lowest in the banking system. With the adoption of IFRS 9 and the recognition of first transitional impact directly in the opening capital for the year, the provisions for impairment decreased substantially and the cost of risk was down to 1.2%.

OPERATING EXPENSES



OPERATING INCOME



BUSINESS OVERVIEW

RETAIL BANKING SECTOR

BRANCH NETWORK DIVISION

In 2018, the Bank continued optimizing its branch network mainly by relocation of branches to places offering better business potential and foot traffic, as well as opening more places for sales such as Momento consumer lending centres. Postbank currently runs a very well-developed, positioned and accessible branch network. The Bank's 174 branches in 80 cities (57 locations in Sofia and 117 outside the capital) cover more than 75% of the population in the country. In 2018, the Bank developed new outlook of its branches, launching innovative design with a look to the future. The first pilot redesigned branch opened in December 2018.

In 2018, the Bank continued focusing on building its relationship with consumers by improving, further developing and increasing the quality of its customer service and cross-sales ratio.

The 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. Teller cash recyclers (TCR) were installed in 25 branches, helping to decrease service time of cash transactions and improve cross-sales. Embossing machines for express issuance of debit cards were installed in 10 branches, allowing customers to receive and start using a new debit card in a matter of hours after application submission. ATMs with new deposit functionalities were installed in 25 branches, improving the experience of customers who visit the branch to deposit cash. E-signing for basic teller transactions was successfully deployed in the entire branch network, decreasing the usage of paper, shortening service time and enabling customers to digitally archive their transaction documents.

PERSONAL BANKING AND DEPOSITS DIVISION

As a segment, personal banking defines customer service with a higher financial, social and professional status – company managers, entrepreneurs, freelancers. In 2018, the customers in the segment were served by an average of 85 experts in nine specialized centres in Sofia, Plovdiv, Varna and Burgas, as well as in other financial centres in the country. The favourable economic environment, coupled with a diverse mix of credit and deposit products, and a high level of customer service, led to a two-digit increase in sales of loans (22%) and credit cards (20%). 2018 was also successful in developing partnerships with third countries. The entire sales team of Postbank's Personal Banking Division 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 was strengthened by the development and deployment of two new products – My Plan savings insurance and Everest investment product. Against the backdrop of low market levels of deposits of individuals, both products offered customers reasonable



alternatives to investment decisions that add value over time. In 2018, deposits of individuals grew by EUR 151 million, increasing by 136% due to a diversified hike in current client accounts (new customers, new salary transfers and bundle programmes), as well as deposit and savings products, of which Deposit 30, and Savings Account Mega were the most preferred.

SMALL BUSINESS BANKING DIVISION

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

Postbank proved to be a trusted partner of the Small and Medium Business with the SME Initiative Programme for Bulgaria. The programme is a joint instrument of the European Commission and the European Investment Fund and the European Investment Bank. The agreements concluded with the National Guarantee Fund help the 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 in support of farmers, doctors, dentists, pharmacists and medical clinics.

The Bank further developed its strategy for better service quality by opening another 10 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 a series of open doors days to promote its new credit products. Furthermore, the traditional series of conferences, Postbank Meets Business, were successfully carried out in numerous cities in the country.

The Bank's 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.

INDIVIDUAL BANKING AND ALTERNATIVE CHANNELS DIVISION

Consumer Lending

The consumer lending market in 2018 was very competitive, dynamic and aggressive in terms of pricing conditions. Postbank managed to keep its leading position in the market and to expand its portfolio reaching BGN 792 million at the end of 2018, compared to BGN 678 million in the previous year. The data encompasses consumer loans and credit cards balances, and the reported increase is based mainly on the consumer loans line – the main contributing factors to the growth is the significant increase in new consumer loans of 50% in 2018 vs. 2017, the efficient portfolio management and clear strategy to attract new, wealthy and creditworthy customers.

In 2018, Postbank launched three marketing campaigns for debt consolidation loans through its unique and innovative credit programme, More Today. Being specially designed to provide customers with the opportunity to increase their disposable income by providing solutions for optimization of their monthly expenses, the programme proved to be exceptionally successful. The unique feature of the More Today lending programme is the product focus, which is based on the customers' demand and transition from the Bank's to the customers' perspective addressing their actual specific needs – optimization of their loan obligations, an increase of their disposable income and enabling them to save time.

Customers can consolidate their existing debts on consumer loans, credit cards, overdraft and other obligations in one new loan, with only one new instalment on one payment date in one bank. In addition, customers can withdraw additional cash amount to cover other consumer needs.

The launched large-scale campaigns contributed for the sustainable increase in the submitted loan applications for debt consolidation, reaching a more than 40% share of the total generated new consumer lending business. Aiming to facilitate its customers, the Bank developed a new dedicated website for the More Today credit programme where clients have access to specialized calculator enabling them to easily estimate the incremental increase of their disposal income by refinancing their monthly obligations with a new consumer loan from Postbank. The dedicated website provides an opportunity for filling-in an application form by customers. This way, they can directly submit a request for an individual offer, receive individual consultation by the Bank's experts and even apply for a loan easily and quickly without visiting the Bank's offices.

Due to the further growing demand for easy and direct access to financing, in 2018, Postbank expanded its Momento specialized consumer lending centres by opening five new locations, situated in key areas in Sofia, as well as in the largest shopping centres in the capital. The Momento centres ensure convenient customers' experience by providing express processing of loan



applications for 40 minutes (for loan requests of up to BGN 40,000). The high-quality service, key locations, extended office hours combined with attractive financing conditions, established the specialized centres as innovative, modern and very successful sale channels, which is evidenced by the silver Effie award the Bank received for efficiency in marketing communications.

In a very dynamic and competitive banking environment and continuously increasing demand for easy access to additional funds, in 2018, Postbank developed its digital services providing better consumer journey. Aiming to ensure seamless shopping experience both in the Bank's offices and digital channels, the Bank developed and launch a new channel for consultations and sales of consumer loans – apply-by-phone. The new service provides end-to-end solutions which enable customers to receive professional consultation and submit loan applications by having just one phone conversation with a bank employee, easily and conveniently, while being at home or at work.

Being among the leaders on the lending market in Bulgaria and providing tailor-made financing solutions and services, Postbank introduced the first banking chat bot, EVA (Electronic Virtual Assistant). The bot is a unique lead generation Facebook channel. Potential customers are given the opportunity to discuss their needs and future plans in the informal environment that an online chat provides. When recognizing a need for consumer financing, customers are offered the opportunity to digitally apply for a loan and receive an answer within few hours. The service is available 24/7 and has already been used by over 15,000 customers.

Household Lending

In 2018, the household lending market in Bulgaria continued being characterized by an upward trend and increased consumer demand justified by the overall improvement in the macroeconomic environment (sustainable growth in the GDP and the average salary in the country alongside a constantly decreasing unemployment rate).

At the same time, the decreasing interest rates of household loans and improved access to financing had a positive influence on consumer demand for financing. The rising wages of households improved the business environment and increased the liquidity of the economy, additionally boosted by the inspiring consumer confidence, sense of security regarding financial planning, trust in banks and increased demand for value-added products and services. As a result of the positive macro indicators, the new consumer lending volumes in the country grew by close to 20% in 2018, compared to 2017, while the new mortgage lending volumes grew by 10% for the same period, as indicated by the reports of Bulgarian National Bank.

Postbank is reporting another successful year evidenced by the achieved results in 2018. The Bank is growing faster than the market in terms of new business, and compared to 2017, is marking a two times higher hike in the new volumes of consumer loans (a 50% increase) and a 24% increase in new mortgage volumes. The main contributing factors to the positive results are the innovative financing solutions and services the Bank implemented throughout the year, as well as the further development and expansion of the alternative and convenient financing channels. Postbank strengthened its competitive capacity and reinforced its position in the market as an innovative customer-centric financial institution focused on digital services with real benefits for customers.

By meeting the needs of its individual customers in the best possible way, Postbank aims to become their main financial partner and a bank of first choice in terms of acquiring new banking products and services – a bank with which individual customers will create loyal and long-term bonds.

Insurance Business

In 2018, the Bank continued focusing on the insurance business in terms of loans, as well as stand-alone insurance products. As a responsible and trustful partner of its customers, the Bank invested in the development of variety of insurance products in order to support customers in case of various unfavourable circumstances. This is another way of becoming their bank of first choice – helping them in case of need.

All developments and initiatives led to stable income growth of the insurance business reaching 30%, compared to 2017. The highest growth was achieved in insurances related to consumer loans, stand-alone insurances and credit cards.

Insurance income growth in the consumer lending segment was more than 50%, compared to 2017, following the excellent performance of the lending volume, as well as the introduction of additional service to the Payment protection insurance. The service of the commercial name, Second Medical Opinion was provided together with Cardiff Bulgaria and MediGuide International. The service enables the insured person to receive a professional medical opinion on his health condition, as well as advice for further treatment based on diagnoses and medical documents from Bulgaria. The review and recommendation are provided by leading medical centres across the world. Postbank is the only bank in Bulgaria providing such complex coverage and service for consumer loan borrowers.

Credit cards insurance growth was more than 20%, compared to 2017, due to the last year's activities related to the improved insurance coverage, as well as the conversion of American Express credit cards portfolio where the Bank succeeded to provide insurance protection to a lot of non-insured customers. Maintaining last year's pace, the Bank expanded its insured portfolio, supporting its long-term goals.

Stand-alone insurances went up by nearly 30%, compared to 2017, confirming that the Bank's aim to provide various insurance products is valued and positively recognized by customers.

In Q4, a new stand-alone product was introduced – Bonus Home individual property insurance. This insurance is providing specially designed coverage exclusively to the Bank's customers. It was developed in partnership with Bulstrad VIG. Customers can choose between two options – to insure both their immovable and movable property or only their movable property. For their convenience the premium is collected automatically from their account in monthly instalments without any additional cost. In the first few months after the launch alone, the sales exceeded two times the expectations, indicating the good acceptance of the product.

The achieved income growth and launched innovations are a proof of our strategy's success in the improvement of the cross-sales and the development of value-added products.

Package Programmes

The flexible, modern and value-added financial solutions continued being the preferred option of our customers for daily transactional banking. The variety of package programmes developed by the Bank provides optimal combination of financial services, adapting to the individual customers' needs.

Customers' appreciation is proven by 2018's income increase in package programmes and the Super @ccount, reaching over 35% on annual basis. 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.

Mortgage Lending

The market environment for mortgage lending in Bulgaria was dynamic and challenging throughout the whole 2018. Nevertheless, Postbank kept its position among the top 3 banks in terms of market share. The Bank maintained a sustainable growth of its mortgage portfolio reaching BGN 1.75 billion at the end of 2018, compared to BGN 1.66 billion as of 31 December 2017, according to the data provided by BNB. The results were achieved thanks to efficient portfolio management and mainly to the significant growth in new production of 24% in 2018 vs. 2017. The generated growth in new business volumes proves Postbank's successful business strategy, especially compared to the noticeably slower market growth in the same period (10%).

As a result of the proactive sales efforts and the attractive financial solutions for home loans, in December 2018, the Bank achieved record-high monthly results in new disbursements. The newly-generated volumes during the last month of the year went up by more than 60%, compared to the same month of 2017.

The mortgage market in 2018 was dynamic not only in relation to business indicators, but also in view of the changing attitude and expectations of consumers. Clients are better informed for the financial products in the market and are willing to get a lending product which fits their needs more accurately both in terms of pricing and additional advantages. Based on the growing consumer desire for more flexibility, control and financial benefits, in 2018, the Bank launched three new types of home loans. One of the products is new for the Bulgarian market and was designed in view of the current market environment of high liquidity and stable growth of household deposits. This type of loan product takes into account clients' funds deposited in the Bank and automatically reduces the same proportion of home loan principal over which interest was calculated. This way, the amount of paid interest was reduced, leading to smaller instalments; or the client could choose to keep the initial monthly instalment amount and repay the loan up to 12 years faster. The other new product is functioning as mortgage overdraft, allowing an initial period with flexible repayment schedule, as well as the convenience to make multiple withdrawals and repayments within the approved loan amount. The third product was developed to stimulate the loyalty of the Bank's clients. In case of regular and accurate repayments of the monthly instalments throughout the loan term, the client is rewarded with waived interest rates for the last two years of the loan repayment period.

In order to ensure professional and efficient customer service, Postbank continued its strategy for development of modern sales channels. In 2018, the Bank invested in five new specialized Mortgage Lending Centres, expanding this network to 29 centres in total. This way, a full coverage of all major cities with major potential for mortgage business was achieved. Thanks to the growing sales network, even more customers were able to take advantage of the professional mortgage services at a convenient location. The Bank was also focused on the development of modern digital channels, providing high-quality online service and easy access to mortgage financing. The award-winning online video consultation channel for mortgage loans is a successful example for digitalized financial services.

Aiming to reinforce Postbank's position as a top-of-mind bank for mortgage lending and to support new business generation, the marketing campaigns in 2018 were focused on added value products and on unique for the market benefits for the customers. The attractive campaign for home



loans with interest-free ending (the last two years of the loan tenor) won the New Service Award of the prestigious marketing contest BAAwards 2018.

Overall, 2018 was a very successful year for Postbank's mortgage business with growth in the mortgage portfolio, significant increase in the new business volumes, expansion of the distribution channels, introduction of new products, services and award-winning campaigns.

Sales Divison

Specialized Centres Department

Responding to high consumer demand for funding for real estate purchases, we continued to develop our specialized network of housing loans. In 2018, Postbank has invested in 5 new housing loans, reaching a total of 30 in the cities of Sofia, Plovdiv, Varna, Burgas, Stara Zagora, Pleven, Russe, Veliko Tarnovo and Blagoevgrad. The specialized housing loans provide the highest quality of service, solutions based on customer needs and full support in the mortgage lending process.

Momento Centres Department

In 2018, we actively invested in the specialized Momento consumer lending centres. Three new Momento centres were opened, reaching a total of 10. Momento centres offer unique service for the Bulgarian market, professional and express service. They provide approval of bank consumer of up to BGN 20 thousand for 40 minutes in convenient locations with extended office hours and easy access. The Moment centres are located in Sofia in one of the most visited shopping centres and areas in the central part of the city.



Mobile network

In 2018, we successfully expanded the network of mobile bankers to a national scale and we are already present in 10 cities – Sofia, Varna, Plovdiv, Burgas, Yambol, Sliven, Dobrich, Shumen, Pazardzhik, Stara Zagora. Mobile bankers hold meetings in a convenient time and place for the client and provide a high level of financial advice and assistance at every stage of the service. The service is completely free of charge for customers.

Telemarketing

As part of the bank's strategy for developing digital finance channels, the Bank launched the option

of receiving a high-quality, fast financial service at any point in the country via 7224 consumer loan application line to meet the expectations of many consumers and demonstrate a growing interest every day. In addition to being able to get a consultation without visiting a bank branch, customers can also take advantage of the convenience of being serviced outside the standard office hours of the Bank and on weekends.

Cards Business

In 2018, Postbank continued focusing on offering its customers innovative products and services, and the most attractive promotions. Our customers had the opportunity to take advantage of different competitive offers for new credit cards throughout the year. We also carried out several very successful shopping campaigns for our cardholders with vendors such as Technopolis, Praktiker and EKO.

Through our award-winning loyalty programme, MyRewards, we continued to give back to loyal Postbank card customers. They received over BGN 1.8 million in 2018 alone.

In 2018, we introduced the new service, Express Card Issuing, for debit cards which gives the customer the opportunity to receive their card just several minutes after they applied for it.

We launched a new ATM functionality for depositing money to a current account or a credit card via a number of Postbank ATMs in different Bulgarian cities. The service allows customers to deposit money to their bank products without visiting a branch and wasting time.

All implemented initiatives led to a 21% increase of the total turnover from credit cards and a 11% increase of the number of newly issued credit cards in 2018 vs. 2017. The number of debit cards increased by 5% and the turnover from debit cards – by 15% for the same period.

We managed to optimize our vendor network as well and reported a turnover increase from Postbank POS devices of 18%, compared to 2016.



Digital Banking

In 2018, the Bank continued the journey towards digitalization and overall development of its digital channels. The efforts and constant improvement of all services and functionalities led to excellent results in all areas. In terms of new internet banking registrations (e-Postbank), we managed to achieve a 62% increase vs. 2017 (55 thousand vs. 34 thousand). As per the actual usage of the internet banking platform,

the active customers of e-Postbank increased by 17% vs. the previous year (101 thousand as at end-2018 vs. 85 thousand as at end-2017), while the volume of transactions was 20% more in comparison to 2017 (BGN 23.5 billion vs. BGN 19.7 billion). Another important KPI, which improved, was the share of digital payments vs. the transactions in the physical locations of the Bank. Customers became more digitally-oriented as the share of payments via the Bank's digital channels reached 57% as of end-2018 vs. 50% as of end-2017.

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

The performance of the online applications business was also excellent, as according to 2018's results customers were more inclined to apply for the most common products of the Bank online. The number of granted consumer loans requested via this channel increased by 112%, while the growth in the granted loan amounts was 114%. The number of granted mortgage loans was 85% more vs. 2017, respectively the approved credit cards of customers who applied online increased by 46%.

All of the above was also strongly supported by numerous improvements, initiatives and new functionalities. Some of the major projects and functionalities which worth noting are: online recovery of forgotten password for internet banking, new functionality of internet and mobile banking for sending personal offers to clients, improvements in m-Postbank by adding fingerprint login (iOS and Android devices) and face recognition login for iOS devices, an option to apply online for products via e-Postbank, change of transactional limits per account via e-Postbank, etc.

WHOLESALE BANKING SECTOR

The Corporate Banking and Capital Markets Sector saw another very successful consecutive year in terms of various market and business indicators:

- The Bank had repeatedly one of the largest hikes in corporate lending volumes among all other banks operating in the country. The successful outcome of the proactive policy of attracting and servicing corporate clients, as well as the sale of a portfolio of corporate non-performing loans, led to a record rise in the Bank's profit-bearing assets (loan portfolio) of 22%, deposits (24%) and net revenue (40%);
- Transactional Banking and Factoring also reported record-high achievements in terms of volumes. For the sixth year in a row, Eurobank Bulgaria AD was the leader in Bulgaria in terms of factoring services;
- During the last eight years from 2011 to 2018, Postbank was named the best custodian bank in the market by the prestigious world magazines Global Custodian and Global Investor.

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

Corporate Banking Division

Postbank's **Corporate Banking Division** finances companies with annual sales turnover of over BGN

3 million. The division incorporates the departments in charge of big and medium-sized corporate clients, project financing and Greek and international clients. It provides specialized business solutions directly from the HQ of the Bank or through our well-developed network of nine corporate business centres across the country. The Corporate Banking Division services also international companies in the corporate segment, which operate in Bulgaria, as well as their subsidiaries across the country.

In 2018, the Corporate Banking Division granted more than EUR 315 million new loans, EUR 185 million of which was disbursed by the **Large Corporate Clients Department** to leading Bulgarian companies from different sectors of the economy and for a variety of projects, including financing of their working capital needs.

EUR 130 million supported the business of mid-sized companies. With the assistance of colleagues from the European Programmes Section, in 2018, loans were granted to many clients under joint programmes and guarantee mechanisms of NGF, BDB, EIF, BEIA and others.

In 2018, the Project Financing Department provided loans of over EUR 37 million and set even more ambitious targets for 2019. 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, the Corporate Banking Division increased significantly its client base and, respectively, its net profit after provisions in 2018.

Corporate Transactional Banking Division

The Corporate Transactional Banking Division achieved a significant increase in the volumes of corporate client transactions in 2018, which contributed to the cost optimization, increase in service quality and raise of generated net financial results. The active communication and the professional expertise of the team were leading factors for the consumer portfolio growth, as the number of new customers went up by 25%. The attracted funds from med- and big-sized enterprises rose by 30%, compared to 2017.

One of the main achievements in 2018 was the development and constant improvement of the traditional and remote transaction channels. During the year, important new internet and mobile banking functionalities were implemented, which contributed to cheaper, faster and more secure transactions. These developments determine the increased appetite of our clients for usage of alternative channels in everyday banking. Those trends of digitalization and improvements continue in 2019 in order to make Postbank the bank of preference and a favourite partner at the dynamic banking market.

Postbank's factoring services showed steady development in the past years and in 2018, the annual turnover of this business exceeded EUR 1.5 billion. The Bank generated a significant 37% volume increase and strengthened its leading position. The driving force of these results was a highly qualified and motivated team that was ready to meet the specific needs of our clients. Moreover, in order to assure flexible, prompt and high-quality administration of the portfolio, a modern software factoring system was implemented. Brand new launch of a Client Portal is planned for 2019 to enable our clients not only to get detailed reports, but also to exchange factoring documents with the Bank in a highly secured environment. Thus, the Bank will further improve the quality of its services.

Capital Markets Division

2018 was another successful year for Postbank. In the last year, the Bank continued strengthening its market positions as a leading financial institution offering innovative financial solutions and high value-added services.

Asset and Liability Management

Successfully achieved goals regarding assets, liabilities and liquidity management led to the improvement of the profitability, optimization of the liquidity buffers and diversification of the funding sources of the Bank. At the same time, Postbank succeeded in preserving its solid liquidity position and liquidity ratios significantly above the regulatory thresholds.

In order to support the SMEs lending growth, in 2018, the Bank signed two guarantee agreements – with the National Guarantee Fund under COSME Loan Guarantee Programme (total limit of BGN 19,558,300) and under the existing EIF contract – SME Initiative Agreement, for an increase in the volume portfolio from EUR 70 million to EUR 97.5 million.

Treasury Sales

In 2018, Postbank strengthened its leading positions in FX operations and continued to expand the offering of structured products suited for the investment needs of large institutional clients.

The Brokerage Section contributed to the Bank's stable position as one of the most active investment intermediaries on the Bulgarian Stock Exchange (BSE). In 2018, the Bank continued holding leading positions in the number of traded deals on the BSE amongst commercial banks and is privileged to have the highest number of clients using e-commerce for BSE transactions.

Trading and 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 2018, 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.

Custody

In 2018, Postbank preserved its leading position as a depository bank of local mutual funds and remained among the leading banks offering a full suite of security services in line with the international standards.

For 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. The Postbank remained the exclusive custodian and security service agent of the biggest European central securities depository, Clearstream Banking – Luxembourg.

For the last eight years Postbank has been awarded as a top rated custodian by the reputable Global Custodian and Global Investor magazines.

Private Banking and Mutual Funds Department

In 2018, Private Banking achieved a robust 84% annual hike in assets under management. The client base was enlarged and successfully developed thanks to financial solutions of Postbank Private Banking along with Eurobank Private Bank Luxembourg S.A.

Over the last year, the Private Banking and Mutual Funds Department expanded and enhanced the list of investment products related to mutual funds with key focus on an automatic investment plan.

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

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 Chairperson, the Secretary of the General Meeting and by the vote tellers.

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

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

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

Management Board

The Bank is managed and represented by Management Board, a permanent collective body, exercising its responsibilities under the control of the General Meeting of Shareholders and the Supervisory Board. The Management Board holds regular meetings and its foremost duty and responsibility is to manage

the business in accordance with the best interest of the Bank's shareholders, customers and employees, to deliver sustainable growth in shareholder value and to safeguard the Bank's interest, to report and keep the Supervisory Board informed on all significant matters regularly, promptly and comprehensively, to prepare the annual activity report and the annual financial statement and to submit them to the registered auditors and the Supervisory Board, as well as other functions and responsibilities provided by the law and the statutes.

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

As at 31 December 2018, 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;
- Ioannis Serafeimidis – Executive Director and Member of the Management Board (effective as of 05.07.2018);
- Asen Yagodin – Executive Director and Member of the Management Board;
- Jordan Souvandjiev – Compliance Officer and Member of the Management Board.

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 holds meetings not less often than once per quarter, or, if necessary, more often, given at least a seven-day written notice.

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

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

Executive Committee

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

Asset and Liability Committee

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

Credit Committee

The Credit Committee of the Bank is set up in compliance with Article 4 of Ordinance № 9 of the Bulgarian National Bank on the Evaluation and Classification of Risk Exposures of Banks and Allocation of Specific Provisions for Credit Risk. Its responsibility is 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 Supervisory Board are obliged to perform their functions with duty of care and to 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 2018, the members of the Supervisory Board are:

- Georgios Provopoulos – Chairperson of the Supervisory Board;
- Theodoros Karakasis – Vice-Chairperson of the Supervisory Board;
- Stavros Ioannou - Member of the Supervisory Board;
- Michalakis Louis - Member of the Supervisory Board;
- Anastasios Nikolaou - Member of the Supervisory Board;
- Christina Theofilidi - Member of the Supervisory Board (resignation date 06.12.2018);
- John David Butts - Member of the Supervisory Board.

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

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

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

Risk Committee

The Supervisory Board has delegated to the Risk Committee (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 Supervisory Board. Currently, the RC consists of 4 (four) members.

The RC meets at least quarterly. The RC meeting is effective when two-thirds of its members are present. The Chairperson must be one of the participating members, or in their absence, they should appoint their replacement from the other Risk Committee members.

Audit Committee

The Audit Committee (AC) is appointed by the General Meeting of Shareholders following a proposal by the Supervisory Board and its purpose is to assist the latter in discharging its oversight responsibilities primarily related 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.

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

Internal Audit

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

Compliance

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

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

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

Corporate Governance

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

Corporate Secretary

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

Shareholders' Structure

As at 31 December 2018, 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.

The Bank has no own shares acquired and transferred during the year.

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 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 been fully documented by the Bank's Risk Management unit, forming the basis of 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 analyse these risks, set appropriate risk limits and controls, and 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. The 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 Management, Monitoring, and Control functions clearly define the 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 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 rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise.

Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk, volatility risk. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary reprising 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 quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and others.

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.).

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

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise 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.

Operational Risk

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF EUROBANK BULGARIA AD

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 40 to 173, which comprise the separate balance sheet as at 31 December 2018 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, comprising significant accounting policies and other explanatory information.

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 2018, 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' Code of Ethics for Professional Accountants (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 2018, the separate financial statements include:

- Gross loans and advances to customers of BGN 5,608,184 thousand (31 December 2017: BGN 5,198,132 thousand) and ECL allowance of BGN 336,995 thousand (31 December 2017 allowance for impairment: BGN 369,500 thousand), as presented in note 18 to the separate financial statements;
- Impairment charge for credit losses recognized in the separate income statement of BGN 63,799 thousand (2017: BGN 69,663 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
- 2.3 IFRS 9 'Financial Instruments' - Impact of adoption
- 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 344 million by 2021. Based on the Management Board's estimate the Implementation of NPE reduction program resulted in an increase in the ECL at both 1 January 2018 and 31 December 2018 and related mainly to additional losses expected on sales of such NPEs. 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.

The first-time adoption of IFRS 9 involved a development of new sophisticated ECL models as well as gathering accurate information as inputs into such models. Since both the development of models and gathering of appropriate information started well before 1 January 2018 the distinction between information that is applicable to the ECL models under IFRS 9 only and information that should have been considered already in prior periods requires significant degree of judgement.

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 2018;
- 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;
- Evaluating the reasonableness of the impact of first-time adoption of IFRS 9 by comparing the assumptions used by the Management Board in their estimate of the ECL under IFRS 9 with those used under IAS 39 and considering whether differences were appropriately supported using our knowledge of the Bank;
- 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 2018 and as of transition date (1 January 2018) based on the Bank's ECL model for a selection of the Bank's portfolios;
- Assessment of the adequacy of the related separate financial statements disclosures in respect of the ECL against financial reporting framework requirements.

OTHER MATTER

The financial statements of the Bank for the year ended 31 December 2017, were jointly audited by other joint auditors who expressed an unmodified opinion on those financial statements on 3 April 2018.

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

Management is responsible for the other information. The other information comprises the separate management report, the corporate governance statement and the non-financial statement, 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 management report, the corporate governance statement and the non-financial statement, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organization 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 management report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- b) The separate management 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 statement 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 fair presentation of the separate financial statements 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 skepticism 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 2018 by the extraordinary general meeting of shareholders held on 5 December 2018 for a period of one year. The audit engagement was accepted by a joint audit engagement letter dated 18 December 2018.
- The audit of the separate financial statements of the Bank for the year ended 31 December 2018 represents a first statutory audit engagement for that entity carried out by KPMG Audit OOD and a first statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners OOD.

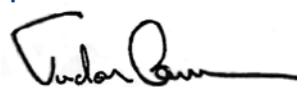
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services 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 management 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 2018 in accordance with the accounting instructions of Eurobank Ergasias SA Group to the components subject to consolidation;
 - Review of the interim special purpose financial information of Eurobank Bulgaria AD prepared as of and for the six-month period ended 30 June 2018 in accordance with the accounting instructions of Eurobank Ergasias SA Group to the components subject to consolidation;
 - Agreed-upon procedures in relation to fulfilling the requirements of article 76, para 7, item 1 of the Credit Institutions Act and article 5 of Ordinance No 14 of 4 February 2010 on the content of the auditors' report for supervisory purposes of the Bulgarian National Bank regarding Eurobank Bulgaria AD's internal control systems.
- For the period to which our statutory audit refers, Baker Tilly Klitou and Partners OOD has provided to the Bank in addition to the audit, the following services which have not been disclosed in the Bank's separate management report or separate financial statements:
- Agreed-upon procedures in relation to fulfilling the requirements of article 76, para 7, item 1 of the Credit Institutions Act and article 5 of Ordinance No 14 of 4 February 2010 on the content of the auditors' report for supervisory purposes of the Bulgarian National Bank regarding Eurobank Bulgaria AD's internal control systems.

For KPMG Audit OOD:**Ivan Andonov**

Authorised representative


Tudor Grecu

Engagement partner


Sevdalina Dimova

Registered auditor, responsible for the audit



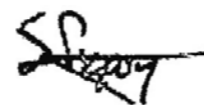
45/A Bulgaria Boulevard

Sofia 1404, Bulgaria

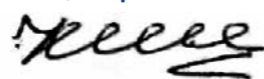
Date: 8 August 2019

For Baker Tilly Klitou and Partners OOD:**Spyridon Gkrouits**

Authorised representative


Krassimira Radeva

Registered auditor, responsible for the audit


5, Stara Planina Str., 5th floor

Sofia, Bulgaria

Date: 8 August 2019

ANNUAL DIRECTOR'S REPORT

ANNUAL ACTIVITY REPORT

The Management presents the separate annual Activity Report as of 31 December 2018.

BUSINESS DESCRIPTION

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

In 2018, the global economy continued its expansion at a slightly slower pace of 3.7%, compared to the previous year's 3.8%. In the second half of 2018, there was a noticeable slowdown in industrial production, trade and business confidence, which eased the growth in the last two quarters. A major reason for this was the prospect of a new trade war – USA, China and other countries raised their tariffs and although the worst actions were postponed, there was still a chance of a renewal of the conflict. The volatility of oil prices in the second half of the year, although relatively stable since the beginning of 2019, also created some tension. The stronger US dollar caused market volatility and rising risk premiums led to capital outflows in some of the emerging countries. All these weaknesses affected the growth projections for the next two years, which now stand at 3.5% and 3.6%.

The downside risks for growth forecasts include the political uncertainty surrounding the trade negotiations, which may cause a full-scale trade war, the sentiments on the financial markets and the uncertainty surrounding Brexit.

The growth of the EU economy is also slowing down – from 2.4% in 2017 to 1.9% in 2018. This was expected to happen as the economies in some member countries were running above their potential rate, but the severity and the duration of the slowdown exceeded expectations. The weaker trade growth significantly affects the countries in the Eurozone with strong connections with the affected ones. Nevertheless, the EU economy has not entirely lost its potential for further growth and it will continue to expand in the next years, albeit with a slower pace. The forecast for the 27 countries that will remain in EU is 1.5% and 1.7% for 2019 and 2020, while in the euro area it is slightly lower at 1.3% and 1.6% respectively.

The major economies are already on the path of a tighter monetary policy. In the USA, the Federal Reserve continued raising the Federal Funds Target Rate to 2.25-2.50%, while in Europe, the ECB ended its net asset purchases in December 2018 as planned. With the growth prospects in the Eurozone still not solid enough and with the many uncertainties regarding the effect of Brexit on the EU economies, the ECB is expected to keep the accommodating monetary policy for the better part of the year and

will not change the rates until at least the autumn. ECB will also continue to fully reinvest the maturing securities for the time being, thus not taking liquidity out of the system.

The Bulgarian economy has been growing at a steady pace of over 3% in the last four years and the projections for the next few are also positive. Nevertheless, the slowdown in the world trade and, more importantly, in the economies of the EU countries had an impact on the local one too. In 2018, the economy grew by 3.1%, lower than in the previous one (3.6%), but still one of the highest among the EU countries.

The positive macroeconomic framework changed Bulgarian consumers' sentiments and consumer spending increased. Consumption grew at record rates reaching 6% in 2018. Investments also performed extraordinarily well, reaching a 6.5% annual increase. Investments growth is expected to continue in 2019 when some large infrastructure projects are to be launched.

The lower GDP growth was thus solely due to the foreign sector. The contribution of exports was negative for the first time since the crisis. At the same time, imports went up (3.7%), albeit at a slower pace than in the previous year.

Total exports (at FOB prices) rose moderately by 1.2% in 2018 to BGN 55.3 billion. The modest results masks two distinctively separate trends. The export to EU countries, the main trading partners of Bulgaria, was rising steadily, by 9.2% to BGN 37.7 billion. On the other hand, trade with third countries was negative, down by 12.5% to BGN 17.6 billion. More than half of the decrease in the volume resulted from Bulgaria's two main non-EU trade partners of Bulgaria, Turkey and Russia, and was caused by the crisis and the volatile oil prices. At the same time, trade with the other countries in Top 5, namely China, Serbia and the USA, went up by two-digit rates. Imports rose by 6.3% to BGN 62.9 billion, with raw materials and machines accounting for the larger part of it. Trade deficit continued increasing, reaching BGN 7.7 billion in 2018, up from BGN 4.6 billion in 2017.

Foreign direct investments increased by 10% in 2018 to EUR 1.533 billion. About a half of the investments were in the form of debt instruments – their level in 2018 was EUR 703 million (one-third lower vs. the previous year). Equity investments stood at EUR 566 million, but included the EUR 600 million increase of the share capital of DSK Bank for the acquisition of SG Expressbank, which will be recorded as outflow in the beginning of 2019. The reinvested profit, however, doubled compared to 2017 to EUR 264 million despite the significant outflow in the first half of the year in the form of dividends paid by the local subsidiaries of foreign multinational companies. The Netherlands accounted for the biggest share of investments, followed by Germany and Belgium.

Standing at 2.7% at the end of 2018, the consumer price index was only slightly lower than a year ago. Inflation was driven by the prices of the energy resources and services. The prices of homes and utilities rose by 4.6% mainly due to a price increase of the heating by almost 15%, caused in its turn by the 12.1% increase of natural gas price. The prices of restaurant and hotel services, and entertainment rose by similar rates – 4.6% and 4.5%, respectively. Food prices were higher by 2.6%, as bread and grain became more expensive by 11%. The prices of clothing and shoes were the only ones to drop by (1.8%). Inflation is expected to remain over 2% in the next year, as the rising salaries continue putting pressure on the prices of services.

According to the National Statistical Institute, the unemployment rate hit a new low of 4.7% at the end of 2018, the lowest registered level in recent years. Last year alone, the rate decreased by 0.9 percentage points and the number of unemployed people fell by 35 thousand to 154 thousand. Several positive trends can be seen in the data. The unemployed in every age group decreased, including the range between 15 and 25 years where the rate fell to below 10%. In addition, the number of long-term unemployed people (two or more years) also decreased, reaching a new low. Even the number of unemployed with basic or no education decreased by 10 thousand although its share of the total number of unemployed remained stable.

The employment rate of people aged 15–64 was 67.7%, slightly higher than the previous year, and there was not much room for a further increase. On the other hand, the number of employed decreased by about 20 thousand last year which was a consequence of the worsening demographic trends. The northwestern part of the country still has the highest unemployment rate of 11.4%, while in the southwestern (including Sofia) and southern regions, the unemployment rate stood at just 2.5% and 3.8%, respectively.

The average salary rose by 7.3% in 2018 to BGN 1,205. The shortage of skilled labour force was acute and the salaries of the highly-educated professionals increased by two-digit figures last year. Salaries in the finance sector rose by 10.4% to BGN 2,047 and even higher in the ITC sector going up by 16% to BGN 2,926.

The state reported a budget surplus for a third consecutive year. Unlike the previous two years, the surplus in 2018 was just BGN 137 million (0.1% of GDP), which resulted from a surplus of BGN 252 million in the national budget and a BGN 115 million deficit in European funds. Like in the previous years, the budget was running on a huge surplus throughout the year, reaching BGN 2.9 billion (2.7% of GDP) in November 2018, but in December, the government approved additional spending, including funds for some ministries and municipalities, as well as BGN 250 million for the army. However, the biggest additional expense by far was BGN 1.3 billion designated for the construction of Hemus motorway.

Budget revenues exceeded the forecast by 1.5% (BGN 300 million) and stood at BGN 23.8 billion. Tax revenues rose by 7.4% (BGN 1.5 billion) with two-thirds coming from VAT, another BGN 330 million (10% YoY) from personal income taxes and BGN 170 million – from corporate taxes (6.8% YoY). The annual expenses stood at BGN 23.8 billion, or about 98.7% of the budgeted amount. In 2018, however, the capital expenses were higher than budgeted – BGN 2.5 billion, or 10% above budget. Taking into account that more than half of this amount was designated for the construction of Hemus motorway, which was not originally budgeted, it seems that the government is still not able to implement its original investment plans.

With the budget being in a surplus, the government did not issue any new debt in 2018. The government debt decreased by EUR 800 million to EUR 12.2 billion (22.1 % of GDP), mainly due to the government bonds maturing at the beginning of the year. The Bulgarian government is planning to balance its books in 2019 and no new international bond issues are expected.

In 2018, all three major credit rating agencies confirmed the credit rating of the country. The rating of Bulgaria according to Fitch was BBB (long-term rating in foreign and local currency, with stable outlook), according to Moody's – Baa2 (both in local and foreign currency, with stable outlook) and according to S&P – BBB- (again in local and foreign currency). S&P changed the outlook in the middle of the year from stable to positive.

Banking System

In 2018, the Bulgarian banking system had one of the best, if not the best, year on record. The net profit of banks rose by 43% to BGN 1.68 billion although half of the net increase was not coming from core business, but resulted from one-off factors such as large dividends paid and other extraordinary income.

Lending was booming buoyed by the positive macroeconomic framework and the higher demand for loans by both companies and households. Total loans rose by 8.6%, the highest level since the crisis, to BGN 60.9 billion. Part of the increase came from the branch of BNP Paribas Personal Finance, which was included in the banking system in the second quarter of 2018, adding some 650 million BGN to the official data about the system, but this effect is minor compared with the total delta of BGN 4.8 billion. New loans were almost evenly split between companies and households. Corporate loans rose by 7% to BGN 38.8 billion, while mortgage and consumer loans grew by 15% to BGN 10.9 billion and 13% to BGN 10.3 billion, respectively. One of the reasons for the higher demand for loans was the falling interest rates. Only in the consumer lending segment the rates had risen since the middle of the year, but this

was ascribed more to the changing profile of customers and the new player in the market (BNP Paribas PF) rather than to the beginning of a long-term trend.

Another reason which facilitated lending and kept rates low was that the Bulgarian banks continued attracting considerable liquidity. 2018 was a record-setting year in terms of new deposits entering the system. In nominal terms deposits rose by BGN 6.2 billion (7.9% YoY) to BGN 84.6 billion, BGN 1.3 billion above the nominal growth of loans, thus adding more surplus liquidity to the system. The loans-to-deposits ratio was up by 1 pp to 76%.

Deposits of non-financial companies, other financial companies and the state grew by 7.7% (BGN 2.2 billion) to BGN 31.2 billion, while household deposits went up by 7.9% (BGN 3.9 billion) to BGN 53.4 billion. The saving rate did not seem to subside and even increased compared to previous years although interest rates were close to zero. On average, the banks in Bulgaria paid only 0.14% on the gathered deposits at the end of 2018, down by 6 bps from a year ago, as trend was already going flat.

The decreasing rates on deposits allowed banks to achieve some saving on their interest expenses which were 20% lower (BGN 71 million), compared to 2017. At the same time, the increasing lending volumes managed to partially offset the lost income from lower loan rates and the interest income was virtually flat at BGN 3.04 billion. Net fees and commissions income rose by 7% (BGN 70 million) to BGN 1.07 billion. Total income also increased – by 8.7% (BGN 336 million) to BGN 4.22 billion although it was inflated by the one-off payment of dividends, bargain gain and a sale of investment real estate recognized by some banks. Total expenses grew by 6.1% (BGN 109 million) to BGN 1.9 billion. About 40% of the net increase came from BNP Paribas Personal Finance, with much of the rest coming from provisions for restructuring accrued by one of the biggest banks in Bulgaria.

Provisions for impairment dropped by more than one-third (BGN 267 million) to BGN 478 million. This effect was to be expected as UBB booked a significant impairment charge in 2017 of BGN 218 million, inflating the base, while in 2018, after the merger with Cibank, its charge was negative (-BGN 21 million). Efficiency and profitability ratios in the system improved – the cost-to-income ratio was down by 1 pp to 45.4%, while the return on equity stood at 12.7%, or 3.2 pp above the level a year ago.

The quality of the lending portfolio is also improving steadily. The non-performing exposures (NPE) ratio was 14.8% in 2017 and 11.1% in 2018. Total NPEs decreased by BGN 1.5 billion to BGN 6.8 billion due to write-offs and sales of portfolios. Still, there are BGN 4.2 billion NPEs in the system which are more than 180 days overdue. The capital adequacy ratio decreased from 22.1% in December 2017 to 20.4% in December 2018, as the growth of the risk-weighted assets outperformed banks' capacity to generate capital, while at the same time some of the biggest foreign-owned banks paid a significant amount of dividends to their shareholders. The CAD ratio of the system was also boosted at the end of 2018 by the EUR 600 million share capital increase by DSK Bank for the acquisition of SG Expressbank. Nevertheless, the capital adequacy ratio is still well above the minimum required levels by BNB (13.5-14% depending on the bank) which provides a solid buffer for future expansion.

Major Changes in the Regulatory Environment

On 1 July 2018, BNB discontinued the calculation and publication of the reference rates SOFIBID and SOFIBOR. BNB continued calculating and publish LEONIA Plus – a reference rate of concluded and effected overnight deposit transactions in Bulgarian lev on the Bulgarian interbank market in and Base Interest Rate which is based on LEONIA Plus. This required amendments to the Law on Credit Institutions regulating the actions of banks in case the calculation of a benchmark rate is discontinued. Banks were allowed to replace the discontinued benchmark rate with another acceptable benchmark rate without the explicit approval of customers under the condition that the new interest rate cannot be higher than the previously applicable one.

In September 2018, BNB announced that it would increase the level of the countercyclical capital buffer rate, applicable to credit risk exposures in Bulgaria to 0.5% in effect from 1 October 2019. BNB noted that the credit-to-GDP ratio corresponded to zero value of the reference indicators for the countercyclical buffer but, at the same time, it planned to introduce measures to mitigate systemic risks and imbalances in the banking sector.

Eurobank Bulgaria Performance and Key Indicators

Eurobank Bulgaria AD reached new heights in its financial performance. The Bank's loans and deposits grew steadily, income improved and provisions for impairment decreased. 2018's net profit set another record, reaching BGN 157 million, or 16% higher than the previous year. Return on equity remained in the two-digit range, rising to 12.7%, up from 11.2% in 2017, while the return on assets was above the 2% mark (2% in 2018, compared to 1.94% in 2017).

In 2018, the market environment was favourable which allowed the Bank to continue with its organic expansion and improve its positions, especially in terms of deposit gathering. Consumer deposits rose by 12% YoY to BGN 6.8 billion, outperforming the market by a wide margin. Postbank focused on attracting more corporate deposits in order to gain volumes fast, improve its deposit structure and keep its liquidity buffers. Deposits from corporate customers grew by 24% in 2018 to BGN 1.77 billion, while increasing by 2.5 pp to 26% as a share of the total deposits. Retail deposits (including deposits from small businesses) rose in line with the market – by 8.5% to BGN 5 billion.

Liquidity buffers remained intact – at the end of 2018 Eurobank Bulgaria's liquid funds were almost 40% of the client deposit base. The Bank is fully self-funded and the deposits from clients were more than 99% of the gathered funds. Cost of funding continued decreasing and in 2018, Eurobank Bulgaria paid on average of 0.12% interest rate on its deposits, compared to 0.17% in 2017.

Gross loans rose by 8% (BGN 410 million) to BGN 5.6 billion. The reinvigorated demand for loans by the households balanced the growth between the retail and corporate lending in contrast to the previous year when 80% of the net delta came from the corporate segment. Corporate loans rose by 10% (BGN 212 million) to BGN 2.36 billion, while mortgages were up by 5.7% (BGN 95 million) to BGN 1.75 billion. The growth of consumer loans and credit cards sped up from 4.6% in 2017 (BGN 30 million) to 16.8% (BGN 114 million) in 2018, reaching a volume of BGN 792 million. Only the small business lending segment reported a negative delta – BGN 11 million (-1.6%) to BGN 700 million.

Net loans rose faster than gross loans (BGN 453 million, or 9.4% YoY) as the Bank continued implementing its strategy for reducing its NPEs through collection, write-offs and portfolio sales, supported by the accommodating market. The NPE ratio dropped by 470 bps to 11.5%, while the NPE coverage improved by 650 bps to 50.4%. The increase of the lending portfolio accounts for over 70% of the increase of the risk-weighted assets, the other significant drivers being the fixed assets (acquisition of the company which owned the head office building) and the RWA for operational risk (stemming from the rising revenues of the Bank in the last years). The CET1 and total capital adequacy ratio both stood at 20.1%, comfortably above the regulatory requirements.

Interest income on loans rose YoY in line with the net loans – by 9.6% (BGN 25 million) to BGN 283 million. Total interest income grew by the same amount (BGN 25 million) to BGN 323 million, as the higher income from placements and derivatives was fully offset by the lower interest income from hedging and securities. In 2018, interest expenses further decreased by 18% (BGN 2.6 million) to just BGN 11.5 million, most probably for the last time, as the deposit rates cannot fall much further to compensate the rising volumes. 2018's net interest income grew by close to 10% (BGN 27 million) to BGN 312 million. Net fee and commission income was also up, although more modestly – by 3.2% (BGN 2.6 million) to BGN 83 million. The focus on becoming the main transactional bank for its clients

was yielding results and the income from items, such as money transfers, account maintenance and sale of services, rose steadily. At the same time, the changes in legislation and the increased lending in local currency affected the fee income from loans and foreign exchange operations which had been significant sources of fees in the past.

Operating expenses rose by BGN 12.5 million (9.5%) to BGN 144 million. In 2018, the number of staff remained almost unchanged, but staff costs grew by 21% (BGN 12.8 million). The cost-income ratio stood at 36%, roughly the same as in 2017, being still one of the lowest in the banking system. With the adoption of IFRS 9 and the recognition of first transitional impact directly in the opening capital for the year, the provisions for impairment decreased substantially and the cost of risk was down to 1%.

Events after the Balance Sheet Date

There is a significant post balance sheet event – the acquisition of Piraeus Bank Bulgaria AD (PBB) expected to be concluded in Q2 2019.

This acquisition of PBB constitutes a step forward for Eurobank Bulgaria to further strengthen its position in the Bulgarian banking sector in both the retail and mainly corporate business segments. The transaction is expected to contribute for significant synergies and will help Postbank sustain its strong capital ratios and substantial liquidity buffers.

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 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 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. The 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 management, monitoring, and control functions clearly define the 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 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 rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk, volatility risk. The Management reviews the interest rate gaps, the interest rate mismatch and the necessary reprising 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 quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and others.

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

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

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise 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.

The Bank's financial risk management objectives and policies, the exposure to credit risk, market risk and liquidity risk and sensitivity analysis for market risk are set out in note 5.2 to the financial statements.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

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

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

At the beginning of February 2019, Postbank received the prestigious Employer of the Year Award

from the Annual Employer Branding Awards of b2b Media. The prize was awarded for the financial institution's overall strategy for building an employer brand with prospects to successfully attract, manage and retain talents. It includes various activities focused on the management, improvement of the working environment, opportunities for professional development and involving employees in projects and campaigns in support of the community and bettering the state of the environment.

In June 2018, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's long-term rating of BBB-, stable outlook.

In 2018, Postbank continued developing modern banking products and services, which are unique for the market, and provide real added value to customers. To meet the expectations of the modern consumer, the Bank invested in the development of Momento centres, an initiative which won the silver Effie award for 2018. Momento is the brand of consumer financing hubs of the Bank, which with their convenient locations and extended office hours provide a comfortable alternative for fast and easy financing.

Postbank received Bulgaria's Best Retail Bank 2018 award in World Finance magazine's prestigious competition, World Finance Banking Awards 2018. Postbank is the only financial institution in Bulgaria which has received an award in this category since the launch of the awards in 2010. Postbank was recognized for its remarkable achievements which are the result of the institution's innovative and sustainable retail banking model, the modern products and services the Bank has developed, its wide network of comfortable offices throughout the country and long-term development strategy. The Bank also won the prestigious award in the Dynamics of Development category of the annual awards of the Bank of the Year Association.

In March, the global leader in payment services, Western Union, awarded Postbank with the special prize for the service enabling Western Union money transactions via each of the Bank's ATMs in Bulgaria. The prize is awarded for the innovation as recognition of the efficiency and flexibility of the Bank's decisions in serving its clients.

Global Custodian, the world's most prestigious magazine covering custodian services, known for its annual surveys regarded as a benchmark in the sector, declared Postbank the top custodian in Bulgaria for a seventh consecutive year. The Bank once again achieved the highest scores in all categories.

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

Postbank expanded the opportunities for profitable business financing. The Bank and the Black Sea Trade and Development Bank (BSTDB) will jointly provide EUR 58.3 million (EUR 32 million and 26.3 million, respectively) to help finance the construction of a Marriott hotel in Sofia, the first hotel of the reputed international chain in Bulgaria. The 12-year loan will be extended to I Tower Development JSC, a special-purpose company set up in Bulgaria. BSTDB acted as an arranger of the deal. The operation aims at meeting the growing demand for high-quality business and tourist accommodation and conference facilities in the Bulgarian capital. The construction of the 232-room Marriott hotel is to be completed in 2020.

For the fourth consecutive year in 2018, the Bank supported the National contest of 24 Chassa Daily – The Big Small, because it attaches importance to the development of small business.

Throughout the year Postbank continued holding its series of specialized conferences in support of the business in the country, Postbank Meets Business. In 2018, the Bank's team visited Sofia, Blagoevgrad, Plovdiv, Dobrich and Montana. At the meetings, Bank's experts presented to local business representatives strategic solutions in support of their business.

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

For yet another year, Postbank supported innovations in the sphere of financial services and called on its partners to join the third regional contest for development of financial technologies, Beyond Hackathon, which is a part of Eurobank's Innovations Centre initiatives. The Bank invites start-ups and people from Bulgaria working in the area of financial technologies – software developers, graphic designers, data analysts and business development and marketing experts - to participate in the contest.

NEW PRODUCTS

In 2018, Postbank introduced more innovative products and services focusing on providing convenience and additional benefits for its customers.

EVA (Electronic Virtual Assistant), the first bank loan chatbot in Bulgaria, is one of Postbank's latest financial solutions. It is available 24/7 to provide useful and well-structured information about different banking products such as consumer loans, credit cards and loan consolidation programmes. By launching its own chatbot, Postbank made yet another step in the introduction of innovative financial solutions and services that facilitate users as much as possible. The chatbot is a software solution which allows to reply automatically to the most frequently asked questions through text, photos, links and other means. It is an electronic virtual assistant which remotely consults consumers faster and through the devices mostly used by them. The chatbot is a modern and increasingly preferred mode of communication because it improves the service process; it offers consumers personalized services and provides user-friendly experience.

In 2018, Postbank released an innovative service for those consumers who prefer receiving a debit card at the moment they submit their application in an office. Issuing debit cards now takes a maximum of 15 minutes. The service is available in selected bank offices. Timely issuance of debit cards saves valuable time and combines a high level of security with quick access to all the features and facilities the cards provide. The new service is part of Postbank's strategy of offering modern financial solutions, fully tailored to their requirements.

In March, the Bank launched a new service after carrying out an in-depth survey into consumers' attitudes – receiving Western Union international money transfers via Postbank's ATMs. The new service enables clients to receive money transfers from 200 countries via the Bank's ATMs. The service is convenient, easy to use and accessible 24/7. The receiver of a Western Union money transfer must have a debit card linked to a payment account in BGN or other currency, issued by the Bank.

The Mobile Bankers service was recognized by our customers as convenient. The service is a free-of-charge professional consultation, as experts provide solutions tailored to the specific needs of customers and assist them in filling in the required documents and their submission in a bank office. At a place and time of customers' choice, the mobile bankers answer all questions related to consumer and housing loans, overdrafts and credit cards.

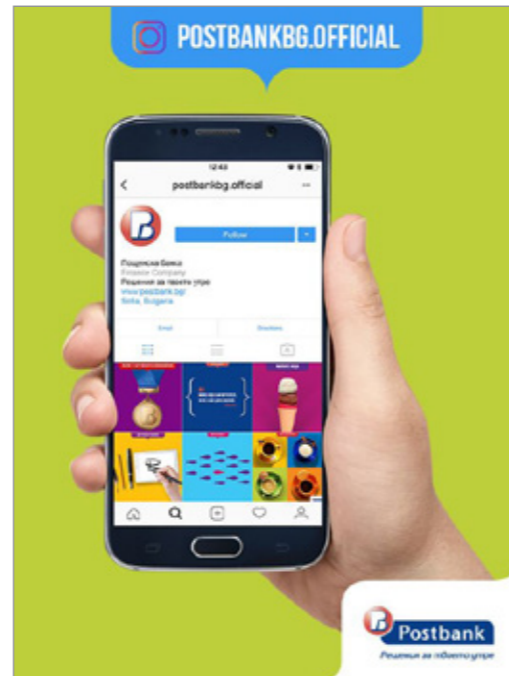


Postbank continued its partnership with Booking.com, the world leader in providing accommodation, as all holders of Mastercard and Visa credit cards issued by Postbank receive an additional 3% discount for each booking in Bulgaria or abroad made via Booking.com through the Bank's website.

The Bank continued offering its customers the More Today lending programme. It allows customers to increase their disposable income by up to 50% and in certain cases by even more. It includes a wide range of lending products with which customers can consolidate their debts on credit cards, consumer and mortgage loans of up to BGN 100,000 quickly and easily. Beside the better personal finance management, the programme allows users to save time, paying one higher instalment in one bank on a set date. The More Today lending programme is one of our most successful products. The Bank recognized by BAPRA Bright Awards for the communications campaign for the loan programme More Today in the Debut of the Year – Campaign for New Product or Service category.

Additionally, Postbank observed growing interest in home lending. The increase in property purchases contributed to a hike in the housing loan applications, compared to the same period last year. The Bank's portfolio indicated that mortgage lending continued to be on the greatest demand in the major cities of Bulgaria – Sofia, Plovdiv, Varna, Burgas and Stara Zagora.

In February 2018, Postbank strengthened its image of a modern and digital bank by enriching its presence in social networks launching an Instagram profile. The Bank was awarded in the Banks category at the 10th edition of the one-of-a-kind consumer ranking, My Lovemarks 2018.



SUSTAINABLE DEVELOPMENT

In addition to its main operations, Postbank continues focusing on the needs of the local community by supporting programmes and initiatives jointly with established institutions and organizations. The Bank is striving to teach responsibility both to its employees and consumers and to the society towards the environment. It aims to create not only competitive advantages by incorporating increasingly higher added value in the products it offers, but also at reducing its negative impact on the environment by using every opportunity to contribute to nature conservation.

In 2018, the Bank carried out a number of socially significant projects in education, environmental protection, sports and corporate donation. Postbank is an active member and supports initiatives of the CRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borica AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov foundation, the UN Global Compact Network Bulgaria and the Bulgarian Association of Advertisers, and the Bulgarian Fintech Association.

The education of children and young people in Bulgaria has always been part of the social responsibility projects developed and supported by Postbank. Therefore, at the beginning of 2018 school year, Postbank launched a joint project with SoftUni in support of the Bulgarian education. It includes various activities which prepare young people for the professions of the future and their realization in Bulgaria. The strategic partnership is aimed at encouraging students to develop their potential as IT and digital leaders prepared for the dynamically changing environment and the new banking trends.

The project is part of the Bank's digitalization strategy and its overall corporate social responsibility policy. Within the partnership, the students of the largest educational IT and digital technologies centre in Bulgaria will have the unique opportunity to work on real projects and cases in Postbank. They will be able to discuss their ideas and own business plans with experts, to propose and develop different digital solutions to be implemented in the Bank, as some of them will personally participate in their integration. The Bank received an award for the strategic project with SoftUni in the Education, Training and Development category of the annual awards for charity and corporate social responsibility, Golden Heart, organized by Business Lady magazine.

Postbank actively supported events organized by the Bulgarian office of the global entrepreneurial organization Endeavor. The Bank was a partner of Endeavor's annual awards for influential mentors and members of the organization who are actively working with Endeavor's organizations. Postbank also hosted a business breakfast where entrepreneurs had the opportunity to discuss with Mrs. Petia Dimitrova and Postbank's team the good practices in working with financial institutions, in particular, the innovations and financial decisions that Postbank could offer for the development of scale-up companies in Bulgaria. The next step in the partnership with Endeavor's global entrepreneurial network is the launch of a programme for a comprehensive support by Postbank - with know-how, expertise and financing, of scale up companies with potential in order to support and develop the business environment and the people in Bulgaria.

In June, Postbank was the main partner of the charity relay-run, Postbank Business Run, organized every year by Begach Club. It was joined by a record number of participants – 300 teams from 107 companies from various sectors, which competed in support of three charitable causes. Thanks to the initiative, the raised funds of over BGN 10,000 were donated to projects initiated by the Cedar Foundation aiming to organize work therapy for children and young adults with physical disabilities, projects initiated by Water Way Foundation for provision of water therapy for children with physical disabilities and to projects of For Our Children foundation providing safe environment assuring personal and life development for children. The biggest regional corporate competition, Business Run Plovdiv, where Postbank was once again among the partners, took place for the second time in 2018.

During the year, Postbank participated again in the corporate social responsibility initiative organized by the UN Global Compact Network Bulgaria and called Proud of My Parents' Work. The campaign aims to help children in their future career development by showing them that labour and education are key values, but skills and qualifications are the core of their successful personal realization. More than 100 students in 2nd, 4th and 5th grade visited the Bank's HQ during the initiative and learned a lot about the work of the Bank's different experts, the power of team work and how important good education is for the professional development.

In 2018, the financial institution supported the National Trade and Banking High School in Sofia for another year and committed to becoming a mentor.

As part of Postbank's regular internship program, for yet another year, the Bank gave an opportunity to talented students and young people eager to prove their qualities and start their professional career in one of the biggest and leading banks in the market in terms of innovations. The internship programme is part of the Bank's corporate social responsibility policy, which has supported youths for over 11 years now.

For the fourth consecutive year, Postbank supported Bulgaria ON AIR and Bloomberg TV Bulgaria's conference, Education and Business. The international forum brought together representatives of leading companies that are working for young people's development.

Postbank is the only bank in Bulgaria which has a Green Board and an Environmental Office unit in its organizational structure. They are working to preserve the environment both through limiting the

resources consumed by the Bank and through its financing activities. Moreover, the Board members organize different outdoor initiatives involving the other employees as well. The Bank invested in its own internal programme, Green Together, which it is developing with its own funds and is implementing thanks to the voluntary work of its employees.

In 2018, the Bank continued to develop its internal initiative, Green Heroes, which will continue in 2019, 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 by themselves, and which show that simple actions could achieve sustainable changes. In 2018, Postbank's team successfully realized another two projects to improve the environmental situation.

In September 2018, for the fifth consecutive year, Postbank joined the PARK(ing) Day Global Eco Initiative, as part of its overall active policy for corporate social responsibility, which is focused on the environmental protection and sustainable development. The financial institution turned its parking spot on Alexander Dondukov Blvd into a green corner and offered visitors the innovative experience E-Ideas for Hidden Places in Sofia – a virtual walk in 14 beautiful locations. The E-Ideas for Hidden Places in Sofia provokes in a digital modern way people's interest in nature and little known cultural places.

For the second consecutive year, Postbank's managers participated in the European Week of Money. The joint initiative is organized by the European Banking Federation, whose members include the Association of Banks in Bulgaria (ABB) and other national bank unions, and aims to improve the level of the financial education of the students in European primary and secondary schools. At the European Week of Money 2018 experts from Postbank's team held open lessons for students in different cities in the country. They shared with them the goals of the initiative, the services and main products of banks, the money history, the ways to save, investments and management of the personal capital.

For the third consecutive year Postbank, as a member of the Association of Banks in Bulgaria, participated in the European campaign, dedicated to the fight against money "mules".

Postbank also invests in support of sport teams – the Bank has been supporting the volleyball team of the town of Dobrich, Dobrudzha 07, since 2015. Postbank's soccer, basketball and table tennis teams performed well in the International Sports Workers' Festival 2018 and in the 15th Business Leaders Olympics, which was held this year.

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

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

AWARDS DURING 2018:

- Best Trade Finance Bank in Bulgaria award according to the annual rankings for 2017 by Global Banking & Finance Review;
- A special award for innovations from Western Union for the service – Western Union money transactions via each Postbank ATM in Bulgaria;

- Award for the seventh consecutive year for the best bank for custodian services from Global Custodian magazine;
- The Best Bank in Retail Banking in Bulgaria 2018 award at the prestigious World Finance Banking Awards 2018 by World Finance magazine;
- Prestigious award Employer of the Year at the second annual Employer Branding Awards by b2b Media;
- Development Dynamic business award from the annual awards of the Bank of the Year Association;
- Award in category "Banks" from the 10-th edition of the one of a kind consumer ranking "My Lovemarks 2018";
- Accolade from BAPRA Bright Awards for communications campaign for the More Today credit programme in the Debut of the Year – Campaign for New Product or Service category;
- Award in the International Communications Division of the Year category from PR Prize 2018 – 3rd place;
- Distinction in the Communications Campaign for Employer Branding category from PR Prize 2018 for the project Together at the Top – Annual Strategy for Employer Brand Empowering – 2nd place;
- Award in the Green Communications in Urban Environment category from PR Prize 2018 for the Heroes in Green internal initiative – 2nd place;
- First place in the New Service category of the 5th edition of the BAAwards contest for the real estate loans campaign, No Interest Finish;
- Silver Effie for one of the most innovative bank services – consumer loans hubs, Momento;
- Award for a strategic project with SoftUni in the Education, Training and Development category of the annual charity and corporate social responsibility awards, Golden Heart of Business Lady magazine;
- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board won the Most Renowned Bank on the Bulgarian Market award – the Burov accolade for 2017;
- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board, received the prestigious Mrs Ikonomika (Mrs Economy) award at the Mr and Mrs Economy 2018 contest", organized by Economy magazine and the Confederation of Employers and Industrialists in Bulgaria.

SHARE CAPITAL STRUCTURE

As at 31 December 2018, 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.

The Bank has no own shares acquired and transferred during the year.

MANAGEMENT BOARD

As at 31 of December 2018, 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;
- Ioannis Serafeimidis – Executive Director and Member of the Management Board (effective as of 05.07.2018);
- Asen Yagodin – Executive Director and Member of the Management Board;
- Iordan Souvandjiev – Compliance Officer and Member of the Management Board.

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 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 held special rights of acquisition of shares or bonds of the Bank.

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

3.1. Partners with unlimited liability

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

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

No member of the Management Board held more than 25% 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.

- **Dimitar Shoumarov**

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

- **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 (effective as of 31.12.2018);

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

- **Ioannis Serafeimidis**

ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors (effective as of 31.12.2018).

- **Iordan Souvandjiev**

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

IMO Central Office EAD, Bulgaria – Executive Director and Member of the Board of Directors (until 18.12.2018);

ERB Property Services Sofia AD, Bulgaria – Member of the Board of Directors Directors (until 31.12.2018).

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

The Bank did not enter into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2018.

SUPERVISORY BOARD

As at 31 December 2018, 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;
- Michalakakis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- Christina Theofilidi – Member of the Supervisory Board (resignation date 06.12.2018);
- John David Butts – Member of the Supervisory Board (effective as of 15.09.2018).

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2018

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

2. The Supervisory Board members' rights to acquire shares and bonds of the company

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

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

3.1. Partners with unlimited liability

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

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

Mr John David Butts was a partner or a shareholder holding more than 25% of the capital of another company. No member of the Supervisory Board was a partner or a shareholder holding more than 25% of the capital of another company.

- **John David Butts**

J David Butts EOOD, Bulgaria – Sole Owner;

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);

ERB Property Services Sofia A.D., Bulgaria – Chairman of the Board of Directors (until 31.12.2018);

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

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

- **Stavros Ioannou**

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

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;

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

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

Grivalia Properties R.E.I.C, Member of the Board of Directors;

- **Michalakis Louis**

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

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

Eurobank a.d. Beograd, Serbia - Chairman of the Management Board (until 23.10.2018);

Eurobank Cyprus Ltd, Cyprus - Chief Executive Officer

NEU Property Holdings Limited, Cyprus – Chairman of the Board of Directors (until 01.09.2018);

NEU 03 Property Holdings Limited, Cyprus – Chairman of the Board of Directors (until 06.12.2018);

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

- **Anastasios Nikolaou**

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

- **John David Butts**

Lexrx Capital OOD, Bulgaria – Manager;

CMS (Cameron and McKenna, Sofia, Bulgaria) – Managing partner.

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

The Bank did not enter into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2018.

In 2018, the members of the Management and Supervisory boards received remuneration amounting to BGN 1,901 thousand.

BANK STRUCTURE

Eurobank Bulgaria AD had one subsidiary as at 31 December 2018 – ERB Property Services Sofia E.A.D. The Bank employs 2,643 people (2017: 2,600).

OBJECTIVES FOR 2019

In 2019, the main financial objectives of the Bank will be to improve further its profitability, expand its lending portfolio, while keeping the liquidity buffers intact, reduce the volume of non-performing exposures and enhance the sources of income. This will be done in parallel with the main strategic objective – the completion of the acquisition of Piraeus Bank Bulgaria. In November 2018, Eurobank Bulgaria signed a preliminary contract with Piraeus Bank S.A. for the acquisition of its local subsidiary Piraeus Bank Bulgaria. The deal is expected to be finalized in the second quarter of 2019. The acquisition of Piraeus Bank Bulgaria offers a unique opportunity to Eurobank Bulgaria to improve its market position and become the fourth largest bank in the Bulgarian market in terms of assets. The finalization of the deal will improve the financial results of the Group in Bulgaria and is expected to provide a higher return to the shareholders.

The macroeconomic outlook for the next year is positive, which will allow the Bank to continue the expansion of the lending portfolio, while maintaining prudent risk appetite. The growth of the lending portfolio will be matched by a balanced growth of the deposit base, leaving the liquidity buffers intact. The Bank will try to maintain its net interest margin which will be a challenging task in the current low-rate environment. The capital adequacy ratio will be kept at a level well above the requirements of BNB although they are going to be increased in 2019 with the introduction of a countercyclical buffer as of 1 October 2019.

The Bank will continue implementing its strategy for reduction of non-performing exposures through collection, portfolio sales and long-term restructuring programmes, while maintaining an adequate coverage ratio. With the interest margins under pressure, the importance of the non-interest income is getting bigger. Therefore, Eurobank Bulgaria will focus on increasing its cross-selling activities, which are an efficient and cost-effective way to increase sales. The Bank has one of the best cost-income ratios in the system and this will be maintained through strict cost control.

Eurobank Bulgaria will continue to invent and invest in providing better products and excellent service to its clients through both physical and digital channels. The long-term strategy of the Bank remains unchanged – to be the bank of first choice for its customers, while meeting the constantly evolving expectations of customers, thus creating value for them and the shareholders.

MANAGEMENT RESPONSIBILITIES

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

The Directors confirm that suitable accounting policies have been used.

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

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



Petia Dimitrova

Chairperson of the Management Board and Chief Executive Officer



Dimitar Shoumarov

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

SELECTED REPORTING DATA

Income Statement

	Notes	Year ended 31 December	
		2018	2017
Interest and similar income		323,053	298,316
Interest and similar charges		(11,540)	(14,114)
Net interest income	6	311,513	284,202
Fee and commission income		99,219	94,071
Fee and commission expense		(16,321)	(13,751)
Net fee and commission income	7	82,898	80,320
Other operating income, net	8	1,032	8
Dividend income		31	1,715
Net trading income/(expense)	9	118	(1,440)
Gains less losses from trading securities	17	(264)	374
Gains less losses from investment securities	19b	4,742	6,511
Reposessed assets impairment		(497)	(518)
Other operating expenses	10	(144,207)	(131,635)
Deposit Insurance Fund expense		(16,358)	(18,774)
Impairment charge for credit losses	12	(63,799)	(69,663)
Profit before income tax		175,209	151,100
Income tax expense	13	(17,782)	(14,835)
Profit for the year		157,427	136,265

The separate financial statements were authorized by the Management on 07 August 2019.



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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For KPMG Audit OOD:

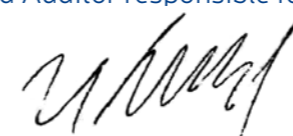
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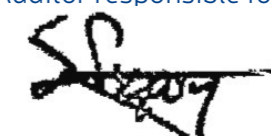
Sevdalina Dimova
Registered Auditor responsible for the audit



Krassimira Radeva
Registered Auditor responsible for the audit



Ivan Andonov
Authorised representative
For KPMG Audit OOD



Spyridon Gkrouits
Authorised representative
Moore Stephens Bulgaria - Audit OOD



Tudor Grecu
Engagement partner
For KPMG Audit OOD

Statement of Comprehensive Income

	Year ended 31 December		
	Notes	2018	2017
Profit for the year		157,427	136,265
<i>Items that are or may be reclassified subsequently to profit and loss:</i>		8,649	11,768
Debt securities at FVOCI/ AFS			
-net changes in Fair Value, net of tax	14	5,824	12,407
-reclassified to profit or loss, net of tax	14	(2825)	(639)
Items that will not be reclassified to profit or loss:		73	(757)
Change in FV of property, plant and equipment, net of tax		1,836	-
Remeasurements of retirement benefit obligations, net of tax		109	(757)
Other comprehensive income for the year	14	8,576	11,011
Total comprehensive income for the year		148,851	147,276

The separate financial statements were authorized by the Management on 07 August 2019.



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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

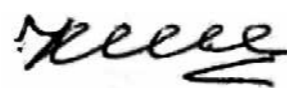
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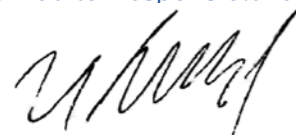


Sevdalina Dimova
Registered Auditor responsible for the audit

For Baker Tilly Klitou and Partners OOD:



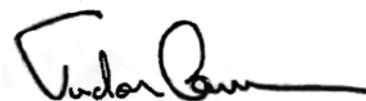
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Statement of Financial Position

	Notes	As at 31 December	
		2018	2017
ASSETS			
Cash and balances with the Central Bank	15	871,393	742,389
Loans and advances to banks	16	1,417,922	1,264,068
Trading assets	17	8,071	14,226
Derivative financial instruments	25	2,400	241
Loans and advances to customers	18	5,271,189	4,828,632
Investment securities	19a	409,407	459,409
Shares in subsidiary undertakings	37	4,868	-
Current income tax recoverable		374	-
Property, plant and equipment	21	125,088	40,602
Investment property	20	406	406
Intangible assets	22	58,536	46,254
Other assets	23	27,545	24,755
Total assets		8,197,199	7,420,982
LIABILITIES			
Deposits from banks	24	28,079	9,025
Derivative financial instruments	25	5,938	7,793
Due to customers	26	6,814,255	6,080,217
Other borrowed funds	27	22,973	30,420
Current income tax payable		-	1,526
Deferred tax	28	2,001	1,776
Provisions for other liabilities and charges	29	6,817	7,410
Retirement benefit obligations	30	5,429	5,059
Other liabilities	31	61,047	41,169
Total liabilities		6,946,539	6,184,395
SHAREHOLDERS' EQUITY			
Share capital	32	560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves		407,816	393,743
Total shareholders' equity		1,250,660	1,236,587
Total shareholders' equity and liabilities		8,197,199	7,420,982

The separate financial statements were authorized by the Management on 07 August 2019.



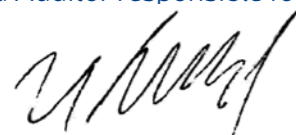
Petia Dimitrova
Chairperson of the Management Board and
Chief Executive Officer

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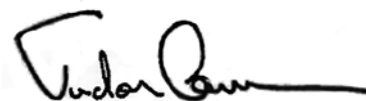
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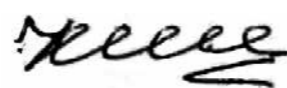


Tudor Grecu
Engagement partner
For KPMG Audit OOD



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

For Baker Tilly Klitou and Partners OOD:



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Spyridon Gkrouits
Authorised representative
Moore Stephens Bulgaria - Audit OOD

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 2017	560,323	1,712	19,284	282,521	284,145	1,147,985
Profit for the year	-	-	-	-	136,265	136,265
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI	-	-	11,768	-	-	11,768
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	(757)	(757)
Total comprehensive income for 2017	-	-	11,768	-	135,508	147,276
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)
Transfer to retained earnings	-	(653)	-	-	653	-
Balance at 31 December 2017	560,323	1,059	31,052	282,521	361,632	1,236,587
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 (note 2.3.2)	-	-	-	-	(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)
Negative 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

The separate financial statements were authorized by the Management on 07 August 2019.



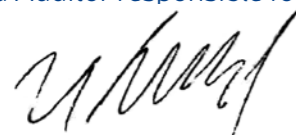
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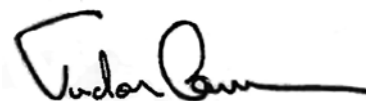
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Ivan Andonov
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For KPMG Audit OOD

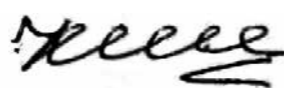


Tudor Grecu
Engagement partner
For KPMG Audit OOD



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

For Baker Tilly Klitou and Partners OOD:



Krassimira Radeva
Registered Auditor responsible for the audit



Spyridon Gkrouits
Authorised representative
Moore Stephens Bulgaria - Audit OOD

Statement of Cash Flows

	Year ended 31 December	
	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	319,271	310,652
Interest paid	(10,899)	(16,318)
Dividends received	31	1,715
Fees and commission received	99,514	94,500
Fees and commission paid	(14,605)	(12,770)
Amounts paid to and on behalf of employees	(74,343)	(64,459)
Net trading and other income received	3,130	7,372
Other operating expenses paid	(74,626)	(77,417)
Tax paid	(9,925)	(15,000)
Cash from operating activities before changes in operating assets and liabilities	237,548	228,275
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Net (increase) in reserve with the Central Bank	(33,919)	(21,607)
Net decrease/(increase) in trading securities	6,117	(11,771)
Net (increase) in loans and advances to customers	(630,696)	(696,117)
Net (increase)/decrease in other assets	(3,052)	4,468
Net (decrease)/ increase in derivatives instruments	(2,301)	2,865
Net increase/(decrease) in due to other banks	19,054	(12,146)
Net increase in amounts due to customers	733,368	557,399
Net increase in other liabilities	1,185	10,929
Net cash flow from operating activities	327,304	62,295
CASH FLOW FROM INVESTING ACTIVITIES		
Payment for acquisition of subsidiary, net of cash acquired (Note 37)	(15,505)	-
Purchase of property, equipment and intangible assets (Notes 21,22)	(35,641)	(18,090)
Purchase of investment securities	-	(68,348)
Proceeds on disposal of property and equipment	581	21
Proceeds from sale of investment securities	39,728	228,100
Net cash flow from investing activities	(10,837)	141,683
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	(58,674)	(58,674)
Long-term debt repaid	(7,441)	(48,514)
Net cash used in financing activities	(66,115)	(107,188)
Effect of exchange rate changes on cash and cash equivalents	(1,181)	1,328
Net change in cash and cash equivalents	249,171	98,118
Cash and cash equivalents at beginning of year	1,735,887	1,637,769
Cash and cash equivalents at end of year (Note 33)	1,985,058	1,735,887

The separate financial statements were authorized by the Management on 07 August 2019.



Petia Dimitrova
Chairperson of the Management Board and
Chief Executive Officer



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

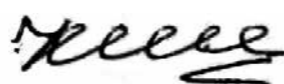
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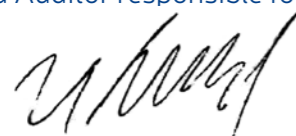
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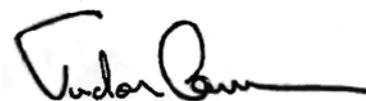
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Moore Stephens Bulgaria - Audit OOD



Tudor Grecu
Engagement partner
For KPMG Audit OOD

FINANCIAL REVIEW

BANK as is
BGN'000

2018

2017

BALANCE SHEET

Net Loans and Advances to customers	5,271,189	4,828,632
Core Client Deposits	6,814,255	6,080,217
Shareholders' Equity	1,250,660	1,236,587
Total Assets	8,197,199	7,420,982

PROFIT AND LOSS STATEMENT

Net Interest Income	311,513	284,202
Net Fee and Commissions Income	82,898	80,320
Net trading Loss/Gain	4,596	5,445
Other operating income	566	1,205
Total Operating Income	399,573	371,172
Total Operating Expense	(144,207)	(131,635)
Deposit Insurance Fund	(16,358)	(18,774)
Impairment Charge for Credit Losses	(63,799)	(69,663)
Profit Before Tax	175,209	151,100
Income tax	(17,782)	(14,835)
Profit After Tax	157,427	136,265

KEY FINANCIAL RATIOS

Total Capital Adequacy Ratio	20.06%	21.77%
Net Interest Margin	3.8%	3.8%
ROA (after tax)	2.0%	1.9%
ROE (after tax)	12.7%	11.2%
Earnings per Share	0.28	0.24
Total funding	6,865	6,120
Fees & Commissions/OPEX	57%	61%
Cost of Risk	1.2%	1.4%
Provisions/Operating income	16%	19%
Cost/Income Ratio	36.1%	35.5%
Net Loans/Deposits ratio	77%	79%

An aerial photograph of a modern city skyline at sunset. The sky is a mix of orange, yellow, and blue. In the foreground, a multi-lane highway with several cars is visible. Two prominent buildings are in the mid-ground: one is a tall, curved glass skyscraper, and the other is a shorter, cylindrical building with a complex, lattice-like facade. The image is overlaid with several graphic elements: a large blue circle with a smaller yellow circle inside it, a large red circle with a smaller yellow circle inside it, and a white dashed line connecting the two yellow circles. There are also white curved lines and a red and blue rectangular overlay on the right side.

**CONTRIBUTION TO
SUSTAINABILITY**

**EVERY
ACCOMPLISHMENT**

*is just the step
to the next one.*

LETTER TO STAKEHOLDERS



Dear Readers,

It is a pleasure to greet you from the pages of Postbank's Annual Report, as we account for yet another exceptionally successful year for the Bank. We would like to thank you all – our clients, employees and business partners – for your involvement in and contribution to the changes that we are implementing together, such as the development of innovative products, modern banking channels and a wide branch network of specialized centres, as well as for your commitment to achieving sustainable development. We would like to herewith share with you the positive overview of what our team has achieved in broader economic, ecological and social terms.

For 28 years now we have been asserting our belief that our successful business growth is inevitably related to projects aimed at the development of the social environment the Bank operates in.

The following pages will tell you more about the major directions in which we channel our efforts in order to attain long-term, sustainable development through effective corporate management, compliance with all statutory regulations and assuming full responsibility for the quality of our products and services. For us this means putting our clients first, creating motivating working environment, increasing the opportunities for career growth and engaging our employees in projects that support the community, and, at the same time ensuring that all of this contributes to the promotion of the economic and financial stability of the company and the community.

Sustainable benefits for our clients and partners

Our long-term strategy has remained unchanged, that is to first and foremost be the preferred bank of our clients by providing them with modern products, excellent servicing and financial solutions tailored to their specific needs. Driven by these goals, in 2018, the Bank continued to invest in the innovative consumer lending brand, Momento. Within no more than a year Momento consumer lending centres with their convenient locations and extended business hours proved to be both a modern and convenient means for fast and easy financing.

The latest financial solution developed by Postbank is EVA (Electronic Virtual Assistant) – the first bank lending chatbot in Bulgaria – available 24/7 to provide useful and well-structured information on various bank products such as consumer loans, credit cards and debt consolidation programmes. In addition to our products, the Bank also offered a number of other benefits throughout the year – options for additional discounts, cash bonuses via the innovative payroll account, Super @ccount,

Western Union transactions directly to the bank's ATMs, mobile bank experts who consulted clients at a time and place arranged in advance.

Development of employees

The real driving force for the Postbank's innovations and strong results, as well as our most valuable resource has, always been and will be our team. Therefore, in 2018, we developed a comprehensive strategy which involves various activities to enhance the working environment, the successful management and the opportunities for career growth and the engagement of our employees with projects and campaigns aimed at improving the environment and supporting the community. We encourage the sense of initiative, creativity and the desire of every employee to be a part of the Bank's change and growth.

The Good Ideas competition where all employees are invited to present their work optimization ideas directly to the Management comes as a proof of the aforementioned. The best proposals are implemented in the Bank and are awarded.

Postbank's employees are also regular blood donors at the National Centre for Clinical and Transfusion Hematology, and take part in blood donation events, organized and implemented in the Head Office, for which I thank them with all of my heart!

It is of a special importance that in the past year we launched an internal donation platform called Together in support of colleagues with health issues. A donation programme has been planned as one of our major long-term projects aiming to upgrade the continuous efforts to foster loyalty and employee care.

It is the Bank's priority to invest in professionally trained employees, who can competently assist and consult our clients and create products which are new in the market. This year, we yet again showed that we are a strong and united team. We are glad that Postbank again won the Employer of the Year 2018 award of the annual Employer Branding Awards of b2b Media. The award is for the overall strategy of the financial institution for creating an employer brand that has the prospect to successfully attract, manage and retain talents.

Care for the environment and the community


We were again very active in the area of corporate social responsibility by implementing a number of socially significant projects in the field of education, environmental protection, sport and corporate donation. We implemented a lot of initiatives of our own and supported programmes of well-established institutions and organizations as their long-term partner.

Some of the events were the charity relay run, Postbank Business Run, the internal programme Green Together with Postbank, the latest internal initiative Green Heroes, the participation in the most recognizable project of the UN Global Compact Network Bulgaria – Proud of My Parents' Work. Our social responsibility projects have been awarded in the most prestigious contests throughout the country. Moreover, the care for environment is not merely a part of the business model through which we strive to save natural resources and diminish our environmental footprint, it has already merged with the personal causes of many of our employees who make our mission as a corporate citizen much more significant with their ideas and enthusiasm. We firmly believe that good ideas have to be encouraged. We hope that we have set an example to be followed by other companies, too.

On the following pages of the Report, you will find more details on all components of our contribution to creating sustainable benefits for our clients, partners and the community.

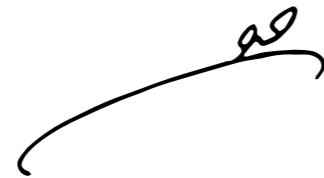
In 2019, we will keep on working as we have so far – with the people within the company and care for our clients, the community and nature in mind.

Sincerely,



Dimitar Shoumarov

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



Asen Yagodin

Executive Director and
Member of the Management Board

GUIDING PRINCIPLES AND BELIEVES

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

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

MISSION, VISION AND VALUES

Our Mission

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

Our Vision

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

Our Values



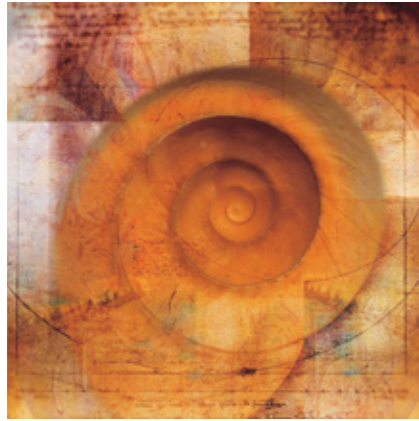
MERITOCRACY

Equal opportunities for
distinction.



RESPECT

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



QUALITY

We aim at excellence in everything we do.



TRUST

When it exists, we achieve the impossible.



EFFECTIVENESS

We always strive to accomplish the goals we set.



TEAMWORK

We succeed when we work together.



SOCIAL CONTRIBUTION

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



CREATIVITY

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

Open and Transparent Relations

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

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

Clients

- One of the largest branch networks across the country;
- Specialized business centres – Small Business Banking, Mortgage Lending and Personal banking;
- Ten business centres servicing medium and large corporate customers;
- Modern alternative channels for servicing and communication with customers;
- Client Relations department;
- 24/7 customer service centre available on 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

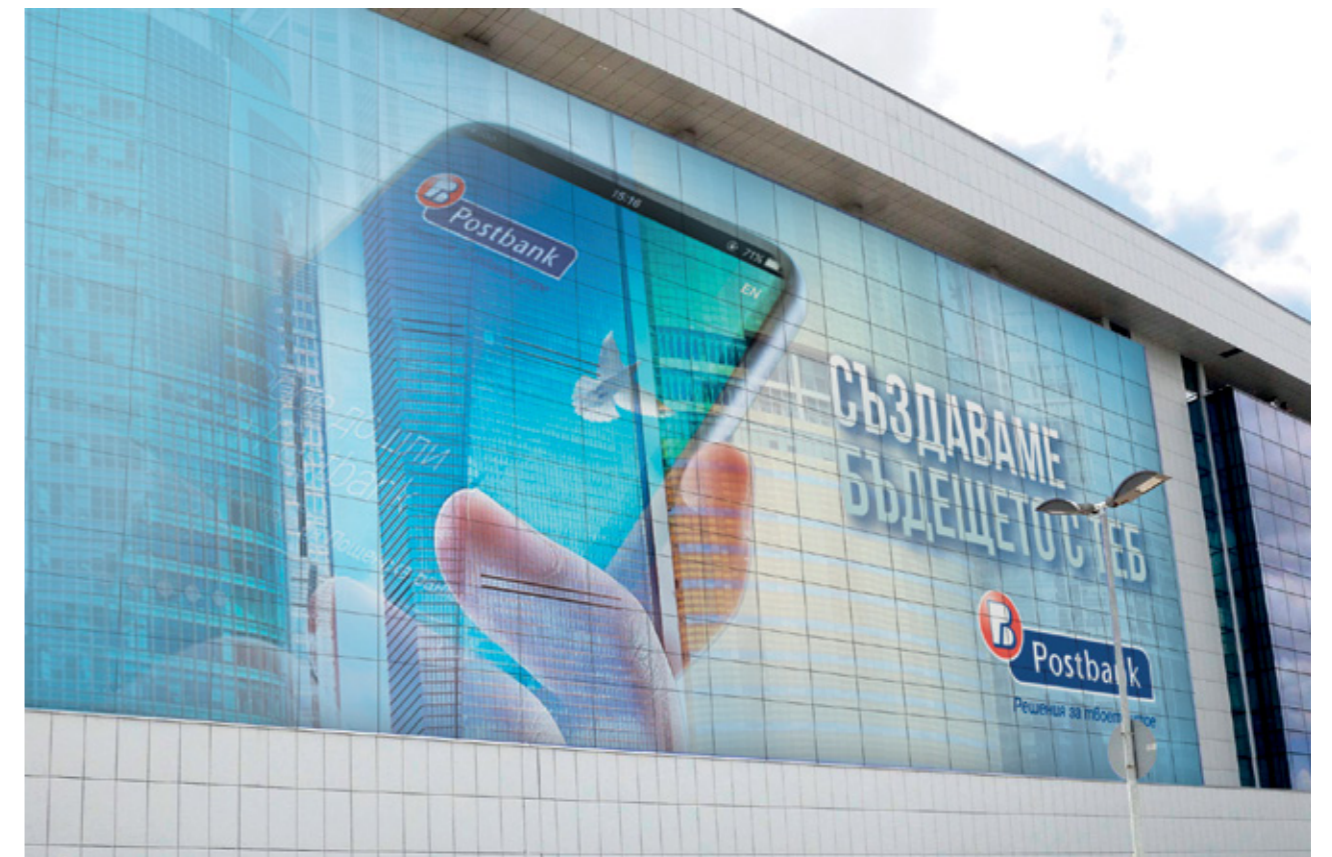
- Environmental Office;
- Social and environmental projects;
- Participation in forums, seminars, conferences and round-table meetings on these topics;
- Contacts with specialized bodies and institutions;
- Cooperation with social agencies;
- Media coverage of these topics.

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 2018 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 2018		PUBLISHED RESULTS 2017	
	BGN Mio	EUR Mio	BGN Mio	EUR Mio
The contribution of the Bank to the "Social product"				
Turnover	423	216	393	201
Interest Expense and Fees & Commissions expense	(28)	(14)	(28)	(14)
VAT on Added Value of the Bank	(5)	(2)	(3)	(2)
Impairment losses	(64)	(33)	(70)	(36)
Social Product	326	167	292	149
The "Social product" and its Distribution				
I. Personnel	68	35	56	29
Gross Pay	85	44	72	37
Employer contribution to social security institutions	3	2	3	2
Medical, Retirement and other benefits	1	1	1	0
Contribution to Social Security Institutions (Employer and Employees)	(16)	(8)	(14)	(7)
Employees tax	(6)	(3)	(5)	(2)
II. Suppliers of Goods & Services	40	21	43	22
III. Donations and sponsorships	0	0	0	0
IV. State	61	31	56	29
Income Tax and various taxes	18	9	15	8
Value added taxes	5	2	3	2
Deposit Guarantee and Investors compensation schemes	16	8	19	10
Contribution to Social Security Institutions (Employer and Employees)	16	8	14	7
Employees tax	6	3	5	2
V. Company	157	80	136	70
Retained earnings/ Reserve	157	80	136	70
Social product	326	167	292	149

CUSTOMER SATISFACTION AND LEAN MANAGEMENT

In 2018, the emphasis fell on customer and service quality and Postbank is investing in a number of projects to increase quality of customer service experience.

Postbank has a special unit – Service Quality and Lean Management which operations are focused on measuring and analyzing quality of customer service and optimizing and improving the processes in order to provide excellent service that meets and even exceeds customer expectations.

In 2018, a number of customer service quality surveys were carried out and we receive very satisfying results regarding Postbank complying with standards. We relied on Lean Management practices and achieved optimization of processes by implementation of electronic signing of documents, teller cash recycler and other significant projects. As a result, the service promptness, the effectiveness and security of customer operations were improved.

In addition to the regular mystery shopping and surveys for collecting and analysing feedback from our clients through various alternative channels, Postbank worked on a project that gave customers the opportunity to share their impressions on the spot – immediately after the service, and strengthened our leading position in innovations and focus on customer satisfaction.

RESPONSIBLE CONDUCT AND PRODUCT LIABILITY

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

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

Compliance

Prevention of Money Laundering and Terrorism Financing

To avoid the involvement of the Bank in any money laundering or terrorism financing activities and operations, the staff applies measures in compliance with the requirements of the local and international legislation. This ensures the security, integrity and the good reputation of the Bank and provides opportunity for better development of the business relationships with clients. All obligations related to clients' identification, due diligence, risk classification and transactions' monitoring are carefully followed. The policy includes the requirement to identify and monitor the accounts of what are known as "politically exposed" persons and their related parties.

The terrorist attacks are one of the heaviest types of crimes and they destroy the values on which the European Union is established. The terrorist attacks during 2018 once again put stress on the measures which the Bank has to apply against terrorism financing. Every employee who knows or suspects that certain operations or deals are related to terrorism financing immediately takes actions in accordance with the requirements of the legislation.

Sanctions

Sanctions are official restrictions on the activities of specific countries, individuals, organizations and industries, which are designed to prevent weapons proliferation and tackle organized crime and terrorism. The Bank maintains systems and controls to comply with all financial sanctions and export controls. In 2018, there were no major changes in the existing sanctions.

Personal Data Protection

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

With the then forthcoming applicability of the General Data Protection Regulation as of May 2018, the Bank commenced its preparation by appointing a Data Protection Officer and starting an institution-wide project for assuring compliance with GDPR. The new rules were accepted as an opportunity for Postbank to endorse the relationship with its clients and confirm the Bank's engagement for compliance with the legislation. The Bank aim is to adhere to the transparent and responsible processing of subjects' personal data.

In 2018, the Commission for Personal Data Protection reviewed three complaints against Postbank and none of them was considered to be grounded. All of customers' requests regarding processing of personal data received exhaustive replies and for those in need of action, the Bank undertook such accordingly.

Fraud and Corruption Prevention

Incidents of corruption and fraud raise important ethical concerns, weaken business relationships, limit productivity, and compromise progress towards a healthy business environment. Therefore the prevention of fraud and corruption ensures that Postbank is seen as a reliable and trustworthy partner in all its business activities.

The Bank maintains high ethical and moral standards and takes measures for prevention of abuse, whether external or internal, and of any other violations of rules, standards or authorities. The Bank's management bodies are committed to ensure the relevant means for combating abuses. The Bank requires from its staff to work diligently at all times and to protect the assets and resources they are responsible for. There is a policy, which intends to make it easier for members of staff and concerned third parties to submit reports on any actual, attempted or suspected fraud or other unethical conduct.

Compliance Division and Operational Risk Department work in close relation with the IT professionals at the Bank to ensure effective and efficient ways for fraud prevention and early detection.

Code of Professional Conduct

The issues of professional ethics have in recent years emerged as a central pillar in the operations of financial institutions around the world. As of 2018, a new Code of Professional Ethics was introduced in the Bank. It is an internal document that is being applied in addition to the requirements of the legal framework and aims at setting minimum common internal rules and principles of professional conduct and ethical behaviour to be followed by the staff of the Bank while performing their duties. Ethical behaviour is part of the culture and the values of the Bank's employees in their career path. The application of the ethical principles and practices is of key importance for the success and recognition of the Bank as a dynamic leading bank with systemic importance for the country's economy.

The Code of Professional Ethics contains provisions of a general and specialized nature, which are in

accordance with the legislative and regulatory framework in which we operate, as well as recognized international standards of banking conduct. The defined in the Code values reflect the philosophy and beliefs of the Bank and provide a special corporate culture. Understanding our clients along with Cooperation, Confidence, Dynamism and Innovation form the basis of our values. These contribute to our credibility and effectiveness, while at the same time they continuously inspire us in our daily interaction.

All employees at Postbank have passed online training on Code of Professional Ethics and are trained in the anti-corruption policies of the organization. Throughout the year, all staff trainings included a presentation of the Compliance Division on the issues described above. The introductory programmes for new recruits include sessions reviewing the Code of Professional Conduct, Anti-corruption Policy, Conduct and the Fraud Response Policy, Policy for Reporting Unethical Conduct.

Audits by Regulators

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

HUMAN CAPITAL DEVELOPMENT

Human capital is a key factor in any organization's success. Postbank's management shares the belief that taking care of its employees, their development and motivation is essential for the achievement of both short-term and strategic goals of the organization.

Dynamic environment and intense competition on the banking market impose ambitious and multidimensional requirements to the management of human resources. They are related, on the one hand, to the capability to select the right people for the appropriate positions, to ensure effective trainings in order quickly to develop all the necessary professional skills, and from the other – to develop and motivate talents within the organization.

In 2018, as part of Postbank's digitalization long-term mission, various internal initiatives were launched to develop its digital ambassadors – employees with a prominent interest and motivation in the field of innovation, working to promote development and creativity in the work environment. New digital services, including an electronic form for self-preparation, were introduced to support human resource development. They were used to optimize the processes of upgrading the knowledge and skills of employees, and increase the opportunities for their development.

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.

Via the internal e-bulletin, Our Bank, distributed weekly by mail, the important new information, relevant to staff members is instantly communicated to all employees. This information often includes key corporate news, information about launching of new products and services, special moments from internal events and photos of different out-of-the-office activities of Postbank team members.

Postbank provides a special CEO hotline – a mail address, which is available for everyone to announce, share or suggest something directly to the CEO of the bank.

Postbank strongly encourages the initiative, creativity and readiness of every employee to be part

of the development and successes of the Bank. This is evidenced by the Ideino (Good Ideas) contest which gives an opportunity to all employees to present their ideas for job optimization directly to the Management. The best proposals are realized in practice in the Bank and are awarded.

A traditional annual meeting was held in 2018 under the motto Together in the Digital Age. The overall concept was conveyed by the message of achieving team results and strategic goals for Postbank's development. A series of motivational team-building events with specific focuses were organized by Postbank in order to upgrade the skills of the employees. Meet & Greet the CEO events were organized regularly in order to facilitate the exchange of ideas between the Executive Director and representatives of various departments.

Trade Unions, Compensations 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 compensations and social 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 are provided with an additional health insurance in a private fund fully covered by the employer. The additional insurance provides for medical treatment costs and can be extended to employees' family members at preferential terms upon choice. 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 housing and consumer loans, credit cards, overdrafts, online banking.

Postbank launched in 2018 an internal donation platform for supporting colleagues in need, called Together. This is a fund raising charity programme planned as one of the Bank's main long-term projects, which aims to upgrade the ongoing efforts to develop loyalty and employee care. The idea of the platform is to create solidarity among colleagues and to be a working mechanism helping for financially employees with serious health problems.

There are no trade unions in the Bank.

Performance Management Policy and Procedure

The Bank's commitment to employees' personal and professional development is one of its major values. In this respect, every year each employee's personal performance is evaluated during the annual performance appraisal process, which supports their further purposeful skill development.

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

The system guides employees to the business spheres where their skills and potential will be of the highest value and, at the same time, encourages them to achieve their professional goals.

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. These initiatives are the result of the Bank's management's belief that the creation of a safe and healthy work environment is a prerequisite for better employee motivation and conditionality and greater 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 based in Sofia and is responsible for the Bank's head office and branches.

Human Rights Matters

Postbank fosters business ethics and excellence, transparency, human rights and accountability. Mutual respect and dignity are core priorities and essential elements in Bank's Code of Conduct. In its selection of suppliers, the Bank aims at ensuring complete respect of human rights in those companies.

In 2018, the Bank carried out a number of socially significant projects in education, environmental protection, sports and corporate donation.

Postbank is an active member and supports initiatives of the CRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borica AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov foundation, the UN Global Compact Network Bulgaria and the Bulgarian Association of Advertisers, and the Bulgarian Fintech Association.

Throughout the year, the Bank continued its long-standing support and work with socially disadvantaged groups, stimulating their active role in society. It provided support to socially disadvantaged children in the town of Kazanlak, to the elderly people in Russe and others.

Matters Related to Anti-Corruption and Bribery

Eurobank Bulgaria AD has adopted a policy of zero tolerance against bribery. The internal policies and procedures in place aim to establish a robust internal system and controlling environment that minimize corruption risk and to set out a clear approach of action in certain risky situations.

The Bank's anti-bribery instruction expressly prohibits the direct or indirect participation in any corruption-related activities. The prohibition applies to all employees and persons acting in the name and on the behalf of the Bank. It is the duty of all employees to be vigilant and to report any cases or attempts of such deeds, as well as suspicions of such.

UN Global Compact Network Bulgaria

Postbank is an active member of the Bulgarian UN Global Compact Network as part of its purposeful support for initiatives for the benefit of society and the protection of the environment. Its participation in the organization's activity is another proof of the company's readiness to pursue a sustainable corporate policy that respects the ten universal principles for social responsibility and environmental protection of the Global Compact, namely:

Human Rights:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards:

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: eliminate discrimination in respect of employment and occupation.

Environment:

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility;

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption:

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

REDUCING THE ENVIRONMENTAL FOOTPRINT

ENVIRONMENTAL POLICY STATEMENT

Sustainable business development is a key value for Postbank, which puts the principles of good corporate citizenship at the center of its business with priority over the short-term profitability and other commercial benefits. We truly 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 being a part of a powerful international financial group, we recognize that we have variety of opportunities to focus public attention on issues that are important to society as a whole. This strengthens our huge responsibility towards society and we aim to serve as positive example to our colleagues, partners, clients and citizens.

As part of Eurobank Group that boasts through its purposeful policy remarkable achievements in the field of environmental protection, we are also determined to transpose and enrich its best practices in Bulgaria. Therefore we are even more 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.

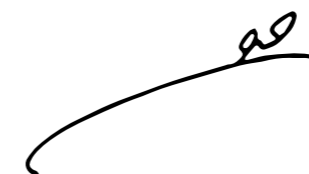
As a socially responsible company with a long-term vision for improving common living environment, we are determined to use our influence and to work actively to preserve our planet. For this purpose, we are determined not only to pursue a high standard policy of environmental responsibility in our everyday operation through our dedicated employees, but also to gradually extend it to our suppliers, clients and society in order to promote beneficial environmental practices and sustainable economic growth.



Petia Dimitrova
Chief Executive Officer and
Chairperson of the Management Board



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



Asen Yagodin
Executive Director and
Member of the Management Board

ENVIRONMENT PROTECTION

1. Postbank 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 created in the environment by pollution and climate change, and the urgent need to implement the appropriate measures to limit them.

There are two main types of environmental impact resulting from an organization's activity – direct and indirect. The direct impact on the environment results from the operations of a company (operational footprint), while the indirect stems 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 in comparison with 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 by responsibly consumption of resources.

Postbank is committed to actively managing both the direct and the indirect environmental impacts of its activity. It is the only bank in Bulgaria that 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 Green Board members organize different outdoor initiatives focused on environmental protection, involving the other employees as well. The Bank invested in its own internal programme, called Green Together, implemented with own funds and through the voluntary work of its employees.

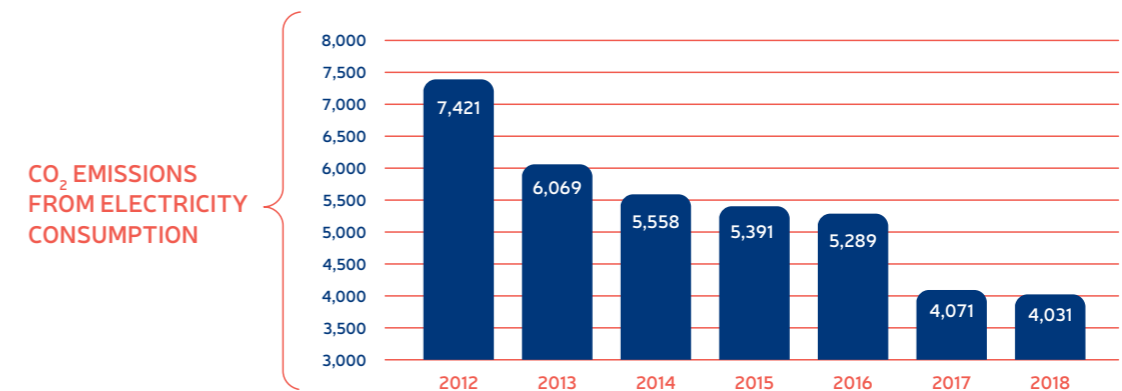
2. Resource consumption management at Postbank

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 energy and its respective CO₂ emissions, water and paper.

A number of initiatives targeting resource use optimization were pursued through the years, and in 2018 as well. The outcome of the initiatives is presented in Figs. 1, 2, and 3 below through three selected **environmental indicators**.

The analysis of the information shows that the 1% overall reduction in consumption target the Bank set for 2018 was achieved and the total reduction across the lines is 1.6%. The data presented in Fig. 1 shows the results of the efforts of the Bank to manage and, where possible, reduce its carbon footprint. A reduction, though not significant, (1% YoY) was achieved. This shows that most probably the carbon footprint of the organization is approaching its efficient level and from now on the efforts to further decrease it would be effective, if only new technological solutions for heating, cooling and lighting are implemented across all premises.

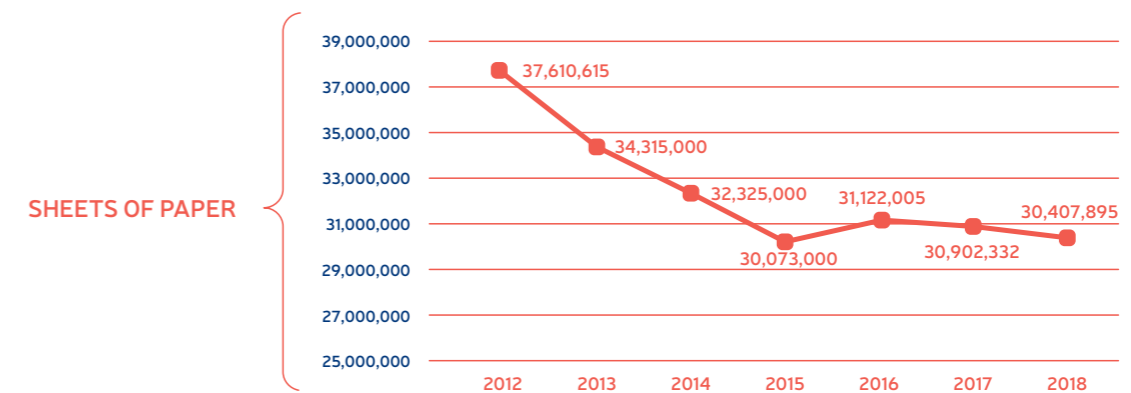
Fig. 1 Postbank CO₂ Footprint from Electricity Consumption, 2012-2018 Water Consumption in Postbank, m³, 2012-2018



Source: Environmental Office calculations based on Premises Department data

In 2018, Postbank launched an innovative project aiming at the gradual implementation of digital signatures of all transactions done by customers at the Bank's financial centres. The unfolding of this project led to a significant decrease of paper usage as printouts were replaced by digital copies of documents. The implementation of the project went on throughout 2018, and the first results are already evident in the 2% reduction of paper consumption YoY presented on Fig. 2.

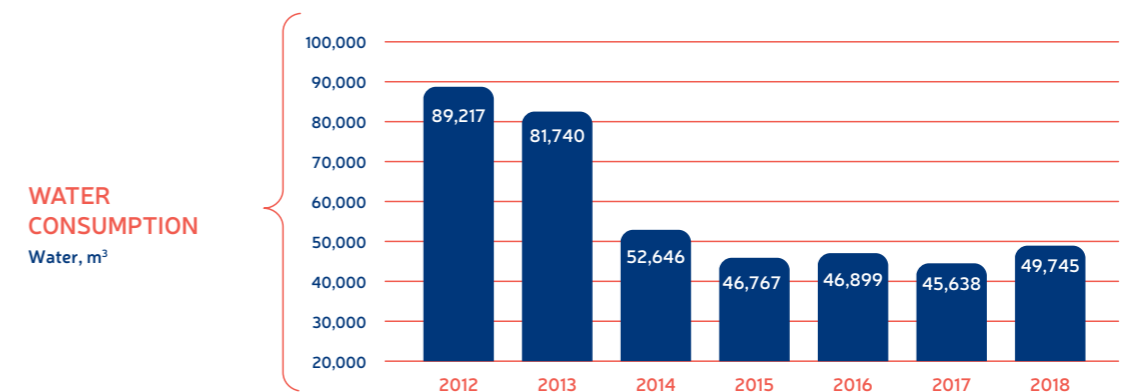
Fig. 2 Paper Consumption in Postbank, sheets of paper, 2012-2018



Source: Environmental Office calculations based on Facilities Department data

Water consumption used for office needs, presented on Fig. 3, saw a certain annual increase in 2018. Checks of the premises are planned for 2019 to identify the possible reasons behind the increase.

Fig. 3 Water Consumption in Postbank, m³, 2012-2018



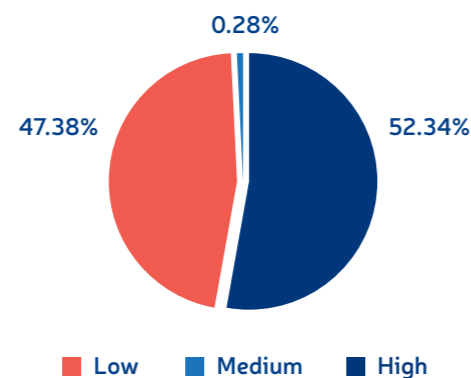
Source: Environmental Office calculations based on Premises Department data

In 2018, the Bank continued the implementation of its internal initiative – Green Heroes, initiated 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.

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, shows 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 reaffirms the continuation of pursuing the **goals for 2019** in the area of environmental management which were set out in the previous year:

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

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 2018, Postbank was subjected to no fines, sanctions or cases in the area of environmental management.

INVESTING IN SOCIETY

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

In 2018, the Bank carried out a number of socially significant projects in education, environmental protection, sports and corporate donation. Postbank is an active member and supports the initiatives of CRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borica AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov Foundation, the UN Global Compact Network Bulgaria, the Bulgarian Association of Advertisers and the Bulgarian Fintech Association.

The education of children and young people in Bulgaria has always been part of the social responsibility projects developed and supported by Postbank. Therefore, at the beginning of 2018 school year, Postbank launched a joint project with SoftUni in support of the Bulgarian education. It includes various activities which prepare young people for the professions of the future and their realization in Bulgaria. The strategic partnership is aimed at encouraging students to develop their potential as IT and digital leaders prepared for the dynamically changing environment and the new banking trends. The project is part of the Bank's digitalization strategy and its overall corporate social responsibility policy. Within the partnership, the students of the largest educational IT and digital technologies centre in Bulgaria will have the unique opportunity to work on real projects and cases in Postbank. They will be able to discuss their ideas and own business plans with experts, to propose and develop different digital solutions to be implemented in the Bank, as some of them will personally participate in their integration. The Bank received an award for the strategic project with SoftUni in the Education, Training and Development category of the annual awards for charity and corporate social responsibility, Golden Heart, organized by Business Lady magazine.



Postbank actively supported events organized by the Bulgarian office of the global entrepreneurial organization Endeavor. The Bank was a partner of Endeavor's annual awards for influential mentors and members of the organization who are actively working with Endeavor's organizations. Postbank also hosted a business breakfast where entrepreneurs had the opportunity to discuss with Ms Petia Dimitrova and Postbank's team the good practices in working with financial institutions, in particular, the innovations and financial decisions that Postbank could offer for the development of scale-up companies in Bulgaria. The next step in the partnership with Endeavor's global entrepreneurial network is the launch of a programme for a comprehensive support by Postbank - with know-how, expertise and financing, of scale up companies with potential in order to support and develop the business environment and the people in Bulgaria.





In June, Postbank was the main partner of the charity relay-run, Postbank Business Run, organized every year by Begach Club. It was joined by a record number of participants – 300 teams from 107 companies from various sectors, which competed in support of three charitable causes. Thanks to the initiative, the raised funds of over BGN 10,000 were donated to projects initiated by the Cedar Foundation aiming to organize work therapy for children and young adults with physical disabilities, projects initiated by Water Way Foundation for provision of water therapy for children with physical disabilities and to projects of For Our Children foundation providing safe environment

assuring personal and life development for children. The biggest regional corporate competition, Business Run Plovdiv, where Postbank is once again among the partners, took place for the second time in 2018.

During the year, Postbank participated again in the corporate social responsibility initiative organized by the UN Global Compact Network Bulgaria and called Proud of My Parents' Work. The campaign aims to help children in their future career development by showing them that labour and education are key values, but skills and qualifications are the core of their successful personal realization. More than 100 students in 2nd, 4th and 5th grade visited the Bank's HQ during the initiative and learned a lot about the work of the Bank's different experts, the power of team work and how important good education is for the professional development.

In 2018, the financial institution supported the National Trade and Banking High School in Sofia for another year and committed to becoming a mentor.

As part of Postbank's regular internship program, for yet another year, the Bank gave an opportunity to talented students and young people eager to prove their qualities and start their professional career in one of the biggest and leading banks in the market in terms of innovations. The internship programme is part of the Bank's corporate social responsibility policy, which has supported youths for over 11 years now.

For the fourth consecutive year, Postbank supported Bulgaria ON AIR and Bloomberg TV Bulgaria's conference, Education and Business. The international forum brought together representatives of leading companies that are working for young people's development.

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



In 2018, the Bank continued to develop its internal initiative, Green Heroes, which will continue in 2019, 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 by themselves, and which show that simple actions could achieve sustainable changes. In 2018, Postbank's team successfully realized another two projects to improve the environmental situation.



In September 2018, for the fifth consecutive year, Postbank joined the PARK(ing) Day Global Eco Initiative, as part of its overall active policy for corporate social responsibility, which is focused on the environmental protection and sustainable development. The financial institution turned its parking spot on Alexander Dondukov Blvd into a green corner and offered visitors the innovative experience E-Ideas for Hidden Places in Sofia – a virtual walk in 14 beautiful locations. The E-Ideas for Hidden Places in Sofia provokes in a digital modern way people's interest in nature and little-known cultural places.

For the second consecutive year, Postbank's managers participated in the European Week of Money. The joint initiative is organized by the European Banking Federation, whose members include the Association of Banks in Bulgaria (ABB) and other national bank unions, and aims to improve the level of the financial education of the students in European primary and secondary schools. At the European Week of Money 2018m experts from Postbank's team held open lessons for students in different cities in the country. They shared with them the goals of the initiative, the services and main products of banks, the money history, the ways to save, investments and management of the personal capital.

For the third consecutive year Postbank, as a member of the Association of Banks in Bulgaria, participated in the European campaign, dedicated to the fight against money "mules".

Postbank also invests in support of sport teams – the Bank has been supporting the volleyball team of the town of Dobrich, Dobrudzha 07, since 2015. Postbank's soccer, basketball and table tennis teams performed well in the International Sports Workers' Festival 2018 and in the 15th Business Leaders Olympics, which was held this year.

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

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

