Euro Bank S.A.

Report of the Management Board on the Bank's activity

for the year ended on 31 December 2016

Wrocław, 21 February 2017

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Introduction

Euro Bank Spółka Akcyjna, hereinafter "Euro Bank S.A." or "the Bank", is organized in the form of a joint-stock company, and operates based on applicable provisions of the law, in particular on the provisions of the Banking Act, the Code of Commercial Companies and the Bank's Statute.

The Bank has its seat in Wrocław at Św. Mikołaja St. 72.

Euro Bank has a wide range of products and services for individuals. The Bank focuses on the development of online service through modern electronic banking and mobile banking. Its activity is based on understanding the needs of and close relationships with customers – according to the slogan "eurobank - every day".

The purpose of this Report of the Management Board on the Bank's activities is to provide additional relevant information supporting the Financial Statements of Euro Bank S.A. for the year ended on 31 December 2016, and additional information facilitating the assessment of the Bank.

1. Selected data and financial ratios of Euro Bank S.A.

Table 1 Selected financial data of Euro Bank S.A.

(in kPLN)	*2016*	*2015*	*Change*
Net profit	141 982	134 444	5,6%
Margin adjusted by cost of risk*	673 864	634 102	6,3%
Net interest income	639 600	575 703	11,1%
Net commission income	61 942	64 041	(3,3%)
Operating expenses and depreciation	(493 636)	(466 445)	5,8%
Result on impairment losses	(126 722)	(73 291)	72,9%
C/I**	61,66%	65,90%	-4.2 pps
ROE***	10,03%	10,60%	-0.6 pps

** Margin adjusted for by cost of risk, understood as the result on banking operations and other operating income and expenses less impairment losses and provisions,*
*** C/I = (Costs + Depreciation)/ (Net banking income + other operating income-other operating expenses),*
**** ROE = Net result / (average equity level EOY).*

The net profit of Euro Bank S.A. for 2016 amounted to MPLN 142. Compared to the result of 2015, which amounted to MPLN 134, the following key elements occurred:

- income from the settlement of acquisition of Visa Europe Limited by Visa Inc. (MPLN 36.2),
- net interest income higher by MPLN 64 (i.e. by 11.1%) in 2016 vs. 2015, resulting from the growth in loans outstanding in 2016,
- an increase in operating costs (including depreciation) by MPLN 27 in 2016 compared to 2015, mainly due to the tax on assets (according to the Act on tax on certain financial institutions) in the amount of MPLN 25.5,
- higher write-downs for impairment of assets by MPLN 53 compared to 2015, mainly due to recalibration of credit risk models in 2015, which resulted in a one-off decline in write-offs by MPLN 40 in 2015.

2. External environment

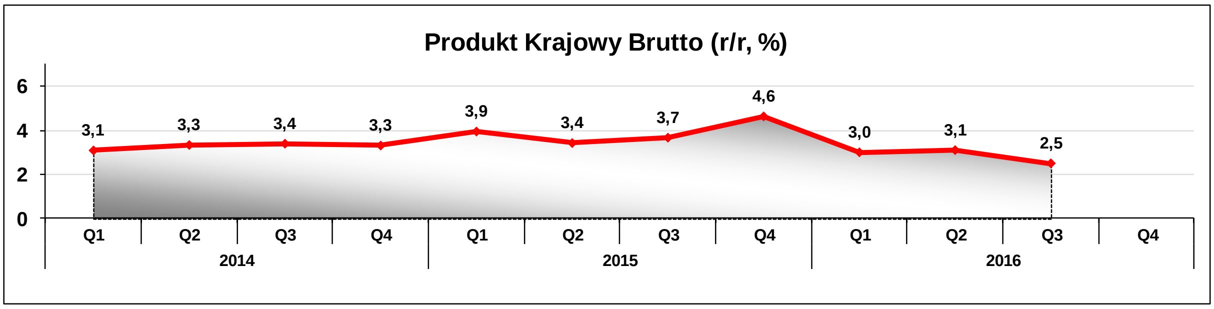
a) Macroeconomic environment of the banking sector in Poland

Euro Bank S.A. operates on the territory of Poland. The offer of the Bank includes products targeted to households. The Bank's financial results are primarily influenced by domestic economic developments and international factors affecting the macroeconomic situation in the country.

The Bank operates through 270 own branches and 213 partner branches.

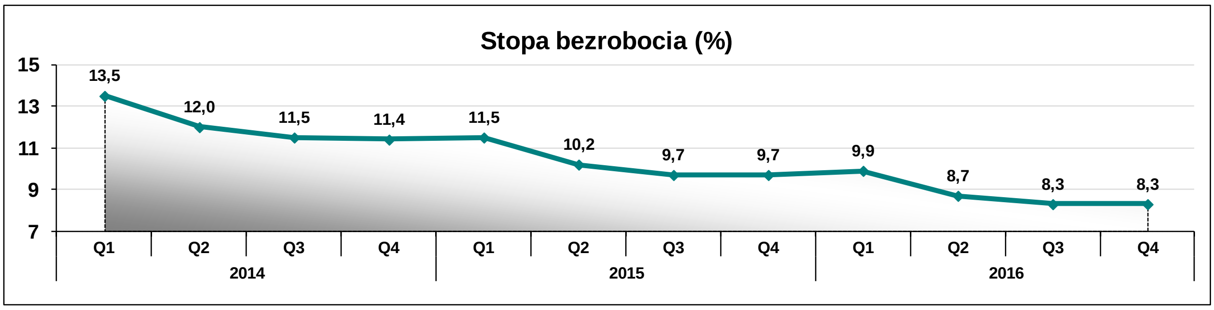
In 2016, a continued positive economic growth was observed, yet the growth rate has slowed.

Figure 1. GDP in 2014-2016 (quarterly)



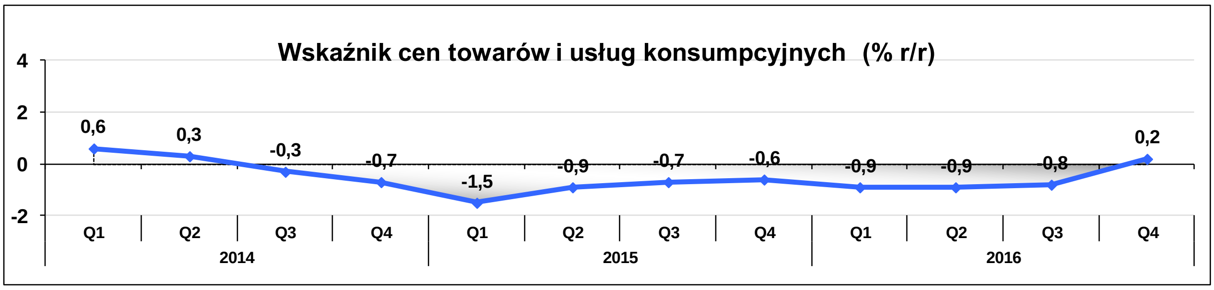
In 2016, one could observe a noticeable decline in the unemployment rate, which at the end of 2016 was at 8.3% compared to 9.7% in December 2015.

Figure 2. Unemployment rate in 2014-2016 (quarterly)



In H2 2016, the return of inflation was recorded, but the consumer price index remained below the lower inflation target of the National Bank of Poland.

Figure 3. Consumer price index in 2014-2016 (quarterly)



The environment of record low interest rates did not translate into a slowdown in the deposit growth and allowed to benefit from the economic situation to improve the dynamics of consumer credits and PLN mortgage loans, which are the two basic credit products of the Bank. While offering innovative solutions as well as high standards of customer service, the Bank continued the activities aimed at maintaining high levels of customer satisfaction as well as directed the development towards highly loyal customers.

b) Regulatory environment

In 2016, there have been significant changes in the regulatory environment of the banking sector in Poland. The financial and organizational situation of Euro Bank SA in this period was affected by:

Entry into force of the following Acts:

- On 1 January 2016, the Act of 9 October 2015 amending the Act on Payment Periods in Commercial Transactions, the Civil Code and some other acts (Journal of Laws of 2015, item 1830), amending the Civil Code with regard to the mechanism for calculating interest in civil-law trading. The amending Act adopted the method of determining the maximum interest based on the NBP reference rate, in place of the previously applied Lombard rate. The Act provides that the maximum interest arising from legal acts and the maximum statutory interest for the delay shall be twice the amount of capital interest and interest for the delay, respectively,
- On 1 January 2016, the Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015, item 1844, as amended) specifying new disclosure requirements for insurance

companies and agents offering insurance, including, among others, the performance of the analysis of the needs, knowledge and experience of the customer and providing information about the most important provisions of the agreement in the form of a table,

- On 1 February 2016, the Act of 15 January 2016 on Tax on Certain Financial Institutions (Journal of Laws of 2016, item 68 as amended), introducing the taxation of assets of financial institutions, including banks. The tax base is the excess of the total value of assets of the taxpayer (total assets) over the amount of PLN 4 billion, upon reduction by the value of own funds established in accordance with the provisions of the Act. Banks are required to settle the banking tax on a monthly basis. The tax rate for each month is at 0.0366% of the tax base,
- On 17 April 2016, the Act of 5 August 2015 amending the Act on Competition and Consumer Protection and some other acts (Journal of Laws of 2015, item 1634), introducing, among others, a new practice infringing collective consumer interests – *misselling*, which involves proposing consumers to buy financial services, which do not match their needs. The Act also extended the powers of the President of the Office of Competition and Consumer Protection, who will be able to issue temporary decisions and address the entrepreneur directly without initiating proceedings,
- On 1 April 2016, the Act of 11 February 2016 on State Aid in Raising Children (Journal of Laws of 2016, item 195, as amended), implementing the Family 500 Plus program. The Act provides for the possibility to apply for aid via the ICT systems of domestic banks providing electronic services, which meet the requirements set out in the information posted on the website of the Public Information Bulletin of the minister responsible for family affairs upon consultation with the minister responsible for computerization. According to the Act, the application and attachments to the application for aid submitted in electronic form using the systems of banks will be authenticated using authentication data used by domestic banks to verify electronically the bank account holder. Filing the application through the ICT system of a domestic bank will be equivalent in terms of legal effects to filing such application on paper bearing the applicant's signature,
- On 30 April 2016, the Act of 14 April 2016 on the Suspension of Sale of Real Property included in the Agricultural Property Stock of the State Treasury and amending some other acts (Journal of Laws of 2016, item 585), and on 16 August 2016, the Act of 6 July 2016 amending the Act on shaping the agricultural system and the Act on Land and Mortgage Registers (Journal of Laws of 2016, item 1159). The amendment of Article 68 of the Act on Land and Mortgage Registers provides for a return to the legal status applicable before 30 April 2016, in which the sum of mortgage on agricultural property was shaped by the will of the parties, without being limited to 100% of the market value of the property,
- On 1 July 2016, the Act of 9 October 2015 amending the Banking Act and some other acts (Journal of Laws of 2015, item 1864, as amended), governing the issue of the so-called dormant accounts. The Act requires banks to inform about the possibility of an account holder to instruct the bank on the disposal of funds in case of death, and in case of death of the account holder, to immediately notify the persons concerned about the possibility to withdraw funds. Amendments to the Act also provide for the time of termination and expiry of a bank account agreement in case of no activity on the account,
- On 20 August 2016, the Act of 10 June 2016 amending the Family and Guardianship Code and some other acts (Journal of Laws of 2016, item 1177). The Act introduces a new category of accounts – family accounts. These accounts may be kept exclusively for individuals who obtain non-enforceable

benefits, allowances and other amounts, among others, the child-support benefit under the Family 500 Plus program. Opening and maintaining family accounts and withdrawals from such accounts shall be free of any fees and commissions.,

- On 8 September 2016, the Act of 10 July 2015 amending the Civil Code, the Civil Procedure Code and some other acts (Journal of Laws of 2015, item 1311, as amended). The Act introduces new forms of legal acts – documentary and electronic. The new regulations are intended to facilitate enforcements from bank accounts through the development of an IT system that supports attachments of debts on bank accounts. Given the amendment of the Civil Procedure Code and the Banking Act, all bailiff notices and bank statements will be submitted in electronic form,
- On 7 October 2016, the Act of 5 September 2016 on trust services and electronic identification (Journal of Laws of 2016, item 1579). The Act introduces regulations concerning the national trust infrastructure, the activities of trust service providers, including the suspension of certificates of electronic signatures and electronic seals, the procedure of notification of the national electronic identification system and supervision of trust service providers. The Act also introduces the possibility of banks to use online banking systems to validate customer trusted ePUAP profiles and to make authorizations associated with its use,
- On 9 October 2016, the Act of 20 May 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (Journal of Laws of 2016, item 996, as amended). The new Act repealed the previously applicable Act on the Bank Guarantee Fund, specifying anew the objectives, tasks and organization of the Bank Guarantee Fund, including the rules of the mandatory deposit guarantee scheme, redemption or conversion of capital instruments, preparation and performance of compulsory restructuring, and the collection and use of information in order to carry out the tasks of the Bank Guarantee Fund,
- On 10 December 2016, the Act of 30 November 2016 amending the Act on Payment Services and some other acts (Journal of Laws, item 1997). The amending Act defines, among others, the rules on consumer access to a basic account and the rules for transferring payment accounts kept for consumers,
- On 1 January 2017, the Act of 22 July 2016 amending the Act on minimum remuneration for work and some other acts (Journal of Laws of 2016, item 1265, as amended). The Act introduces a minimum hourly rate for those who work on the basis of specific mandate contracts and service contracts subject to the provisions applicable to mandate contracts.

Regulators requirements:

- PFSA Resolution no. 51/2016 on the issuance of Recommendation C concerning the management of concentration risk, committing Banks to adjust to the new requirements by 31 December 2016,
- KNF Resolution no. 61/2016 on the "Rules of the Arbitration Court at the Polish Financial Supervision Authority",
- PFSA position on the intermediation of payment service providers in payments for participation in gambling organized on the Internet,
- Communication of the Chairman of the Polish Financial Supervision Authority of 27 September 2016 regarding the value of the weighted rate used to calculate banks' contributions to cover the cost of supervision in 2016,

- Position of the Financial Ombudsman and the President of the Office of Competition and Consumer Protection on the interpretation of Article 49 of the Act of Consumer Credit,
- PFSA position on the application of the so-called modification clauses by supervised entities,
- PFSA position on the treatment of the internal online service of the bank as a durable medium within the meaning of Article 2 (30) of the Act on Payment Services,
- PFSA position on credit and loan agreements extended by credit unions and banks in connection with Article 75c of the Banking Act,
- Good practices in terms of consumer credit advertising standards, which entered into force on 1 July 2016,
- PFSA letter of 21 October 2016, ref. no. DBK/DBK3/7105/13/3/2016, updating PFSA recommendations on the need for Euro Bank S.A. to meet additional capital requirements due to the risk associated with foreign currency mortgage loans for households. The Bank has adjusted its procedures, products and solutions to the amended legal and regulatory requirements.

3. Changes in the composition of the Bank's statutory bodies

In the period from 1 January to 31 December 2016, the composition of the Management Board was subject to the following changes:

Management Board Member	Function	Comments
Alexis Lacroix	First Vice-President of the Management Board	Appointed on 1 September 2016 by resolution of the Supervisory Board no. 02/07/2016 of 21 July 2016
Arnaud Denis	President	Resignation from the position of the President of the Management Board filed on 8 July 2016, effective as of 27 August 2016
Yves Arrouet	Vice-President	Resignation from the position of the Vice-President of the Management Board filed on 13 December 2016, effective as of 31 January 2017
Marcin Ciszewski	Vice-President	na.
Wojciech Humiński	Vice-President	na.
Krystian Kulczycki	Vice-President	Resignation from the position of a Vice-President of the Management Board filed on 26 January 2017.
Jarosław Nowacki	Vice-President	na.
Radosław Księżopolski	Vice-President	na.

On 13 December 2016, the Supervisory Board appointed Mr Mariusz Kaczmarek to the Management Board, effective as of 2 January 2017.

In the period from 1 January to 31 December 2016, the composition of the Bank's Supervisory Board changed as follows.

Supervisory Board Member	Function	Comments
Giovanni Luca Soma	Chairman	na.
Didier Haugel	Vice-Chairman	na.
Andre Sepaniak	SB Member	Resignation from the position of a member of the Supervisory Board filed on 14 December 2016
Henri Bonnet	SB Member	na.
Krzysztof Jajuga	SB Member	na.
Dominika Bettman	SB Member	na.
Małgorzata Lubelska	SB Member	na.
Eric Delarue	SB Member	na.
Sebastian Mikosz	SB Member	na.

On 24 January 2017, the Extraordinary General Shareholders' Meeting of Euro Bank S.A. appointed Mr Mihai Selegean into the composition of the Supervisory Board.

4. Awards and prizes

In 2016, the Bank was awarded in the following rankings and competitions:

- Złoty Bankier 2016 for the Prestige account - the best personal account (Puls Biznesu, www.bankier.pl, 18.04.2016),
- Golden Effie Awards 2016 statuette for the "Wypożyczka" campaign (SAR Marketing Communication Association 24.10.2016),
- 1st rank in the SG IBFS Innovation Awards for HCE payments in the new innovative product or service category (28.07.2016),
- 1st rank in the voting by Societe Generale employees: Group Innovation Awards for HCE payments in the new innovative product or service category (10.10.2016),
- 1st rank in Societe Generale competition: Environmental Efficiency Award for the project raising environmental performance in the transportation category (10.10.2016),
- 1st rank in the satisfaction ranking (ARC Rynek i Opinia, Retail bank customer satisfaction monitor, I-IV 2016 r.),
- 3rd rank in the "Service quality via remote contact channels" category (Institution of the Year, 15.02.2016),
- 4th rank in the "Service quality at branches" category (Institution of the Year, 15.02.2016),
- "Newsweek's Friendly Bank 2016" (Newsweek, 28.09.2016):
    - 5th rank in the "Banks on the Internet" category,
    - 5th rank in the "Mortgage Banking" category,
    - 8th rank in the "Bank for an Average Consumer" category,
- Best Customer Service (www.money.pl, 02.03.2016),

- 4th rank in terms of service quality in the Złoty Bankier 2016 competition (Puls Biznesu, bankier.pl, 18.04.2016)
- 1st rank in the competition of Lean Enterprise Institute Polska (27.04.2016),
- 1st rank in the real estate funding banks category in the "50 largest banks in Poland 2016" ranking (Miesięcznik Finansowy Bank 20.06.2016),
- 3rd rank in the "Bank – mortgage loan" category of the "Laur Pośredników Finansowych" competition (KPF, 04.10.2016 r.),

5. Share capital, shareholding structure and changes in equity

On 21 June 2016, the Ordinary General Shareholders' Meeting of Euro Bank S.A. was held, at which a resolution was adopted to allocate the profit for 2015 to supplementary capital. The share capital of the Bank as at 31 December 2016 amounted to PLN 563,096,032.05.

Table 2 Reconciliation of changes in equity in 2016

	2015.12.31	***Result for 2016***	***Other***	***2016 .12.31***
Equity capital				
Share capital	563 096	-	-	563 096
Reserve and revaluation capital	658 725	-	111 334	770 059
Profit for 2016	-	141 982	**-**	141 982
Profit for 2015	134 444	-	(134 444)	-
Total equity	**1 356 265**	**141 982**	**(23 110)**	**1 475 137**

In 2016, the shares of the Bank were held by 14 shareholders. In 2016, the majority shareholder carried out a buy-back of the Bank's shares from some minority shareholders. The Bank's shareholders held the total number of 49 875 645 shares with the total nominal value of PLN 563,096,032.05. As at 31 December 2016, the share face value amounts to PLN 11.29.

The main shareholder is SG Consumer Finance S.A., which holds 99.97% of shares. In 2016, the shares were bought back from minority shareholders. As at 31 December 2015, SG Consumer Finance SA held 99.52% shares of the Bank.

6. General information on the evolution of the lending and deposit portfolios in 2016 and on collection activities

Development of products and remote access channels

In 2016, the Bank consistently pursued its strategy of becoming a first-choice retail bank for a growing number of individuals. The Bank focused its efforts on developing the product range, remote contact channels, acquiring new customers and on building long-term relationships with customers.

- In 2016, the number of customers actively using the mobile banking grew relative to 2015 by approx. 28%,
- The number of internet banking users in 2016 grew by approx. 20%,

- The number of customers domiciling their income of salaries in the Bank increased,
- Cashless card transactions grew by 28% compared to 2015,
- Also the number of products per active client increased.
- Such good results were achieved by the Bank, among others, due to activities taken in 2016 in the area of product and access channel development.

Accounts

- In April 2016, the Prestige account of eurobank won the 7th edition of the Złoty Bankier ranking - the country's largest research project on the level of banking services, product quality, advertising communication, social media communication and social engagement, organized by Bankier.pl and *Puls Biznesu*.
- Practically over the whole year 2016, eurobank promoted its offering also by way of a number of partnerships and social media campaigns:
- In May, Euro Bank together with Zeccer prepared a promotional campaign of the Active account, as part of which customers aged 18-26 could take advantage of a promotional personal account offer and receive an additional package of free page printouts from Zeccer using its printers situated in several dozen locations in Poland,
- In the following months, Euro Bank promoted its account offer together with various partners being leaders in their sectors, such as ITAKA, Tchibo and Virgin mobile,
- In November, the Bank prepared a campaign in cooperation with the Streetcom marketing agency. The concept of the project was based on encouraging consumers to take up physical activity and settling bank products in the context of sports and lifestyle. The campaign involved experts of the Streetcom community, who not only actively use entertainment such as sports, recreation and culture, but also regularly use payment cards. The concept of the campaign broke the cliched perception of bank products by putting them together with the idea of a healthy lifestyle and physical activity. In this way the actions referred to the benefits of the Active account in Euro Bank, including the 5% money-back for card expenditure on entertainment, sports and recreation under the "Friends&Family" Program,
- On November 15th, the Bank launched the "Hajs eurobanku jest najs" campaign, the aim of which was to encourage people to show what would they spend additional money on. The campaign was promoted by one of the most popular youtubers, Blowek. As part of the campaign, customers aged 18-26 could open an Active account on promotional terms,

- In July 2016, the Bank implemented a number of measures to prevent the churn of personal account and deposit holders, and to activate such customers,
- In October 2016, the Bank refreshed its personal accounts offer, in particular, the new "Na co dzień" account package was implemented to respond to the needs of both customers using remote service and services in branches. The sale of the account was supported by the "Account with a Bonus up to PLN 500" promotion, as part of which customers could gain up to PLN 500 for active use of the account and the Bank's products,
- In November 2016, the Active Account offered by Euro Bank won the expert ranking by totalmoney.pl. The authors appreciated, among others, the "Friends&Family" Program as well as modern mobile banking services, including HCE payments.

Cash loans

- In the first half of the year, the Bank led active cash loan marketing campaigns, successfully continuing the promotion of the loan: "Wypożyczka". Due to its simplicity and transparency, this product has been very well received by customers. For the "Wypożyczka" campaign, the Bank won the Effie Awards 2016,
- In the second half of 2016, in response to customer expectations and market trends, the Bank made its consolidation loans offer more attractive, and in particular, increased the availability of such loans to another customer groups and allowed applying for them by two persons,
  In Q4 2016, the Bank also carried out a marketing campaign of its consolidation loan,
- Furthermore, in 2016 the Bank modified its overdraft offer by way of introduction of simplified income documenting methods,
- Throughout the year, the Bank carried out a number of dedicated campaigns with special offers and in cooperation with Groupon and Sodexo, among others,
- In 2016, the Bank also implemented projects to adapt to new regulations, including to the applicable limit on non-interest costs.

Mortgage loans

- Given the amendment of the Act governing the terms of the "Apartment for the Young" government program, the Bank implemented the possibility to extend mortgage loans with the funding of borrower's downpayment from the state budget for the purchase of the first apartment or a single-family home on the secondary market.
- The Bank focused its efforts on optimizing and streamlining the lending process and cooperation with Sales Partners,
- At the end of 2016, the Bank developed an acceptance process for loan applications under the "Mieszkanie dla Młodych" program and for funds made available under the program since January 2017.

Cards

- In February 2016, the Bank implemented HCE mobile payments to its offer,
- In July, the Bank introduced a new Visa Electron card to its debit card offer. The card allows making contactless transactions, online payments and cashback transactions,
- In December 2016, the Bank introduced a new MasterCard Debit Prestige card with a unique image referring to a vinyl record, dedicated to Prestige accounts.

Savings and investment products

- In February 2016, the Bank offered the "New funds" deposit, which aroused great interest among customers and provided the Bank with a significant growth of new deposits,
- From February to April, the Bank offered customers a promotional "3 times better deposit", dedicated to new customers of the Bank, which was supported by a media campaign, including in the TV, radio and the Internet, and proved to be very successful,
- In June, the Bank's deposit offer has been extended to include a new savings account, Ekstra Zysk [Extra Profit], offering more favorable interest rates for new customers and customers

domiciling their salaries. In the period from August to November, the new account was supported by a marketing campaign (TV, radio, Internet), which allowed the Bank to strengthen the image of a universal retail bank and acquire new customers with savings,

- In terms of savings and investment products, in March the Bank permanently introduced a new product combining a deposit with the "Kapitalny duet" investment fund of Amundi Polska TFI S.A., as part of which a half of the amount contributed by the customer is invested in the units of the fund selected by the customer, and the other half is deposited on a deposit with fixed interest rate higher than the standard interest rate on deposits available in the Bank's offer,
- In September, the Bank extended its cooperation with Amundi Polska TFI S.A. by implementing the Regular Saving Plan: "Mam plan: Inwestuję", where the customer, by investing a minimum of PLN 50 per month, acquires units of any Amundi sub-funds with no purchase fee,
- In 2016, the Bank' deposit base grew by 19%, and Euro Bank's share in the deposit market exceeded 1%.

Development of remote channels and mobile services

- In setting trends in the area of electronic access channels, the Bank added the application dedicated to Apple Watch – thereby opening a new "wearables" segment,
- Owing to the implementation of the new Internet Banking, the Bank was awarded with the 5th rank in the "Newsweek's Friendly Bank" ranking for "Internet Banking" and 1st rank in the Złoty Bankier 2016 ranking,
- To meet customer expectations, the Bank implemented the possibility to change the repayment date, to benefit from credit "holidays" and to make early repayment of the loan through both the Internet Banking platform and the Mobile Application (as the first in Poland in the mobile application),
- In April 2016, the Bank allowed customers to file applications under the "Family 500+" Program via its Internet Banking system,
- As at the end of 2016, over 450 thousand customers had active access to Electronic Banking of the Bank,
- In August 2016, the Bank improved its mobile application for: Android, iOS and Windows phone systems – the "reverse transfer" and "redo" options; transfers to the Tax Office and the Social Security Institution. These changes significantly improved the quality of use of the mobile application,
- The localization path launched in November 2016 improved the on-boarding for new customers in terms of contact via remote channels,
- Bank cares about education in the field of electronic access channels also among its own employees – the Digital Talents Academy has over 100 employees who generate innovations, test implemented ideas and learn about new mobile technologies.

a) Loan portfolio

The Bank's loan portfolio consists of loans to individuals, with predominant share of cash loans and mortgage loans. Changes in the structure of the portfolio in 2016 are presented in the table below:

Table 3 Comparison of the credit portfolio structure as at 31 December 2016 vs. 31 December 2015.

in kPLN	**31.12.2016**	**Share in %**	**31.12.2015**	**Share in %**
Mortgage loan	6 397 053	56,1%	5 910 325	56,1%
Cash loan	4 832 802	42,4%	4 461 738	42,3%
Credit Card	102 600	0,9%	111 606	1,1%
Other credits and loans	65 400	0,6%	56 797	0,5%
Total amounts due from customers	**11 397 855**	**100,0%**	**10 540 466**	**100,0%**

In 2016, the Bank's structure of exposure to individual credit products remained at a level similar to that at the end of December 2015.

b) Customer deposits

The deposit base of non-financial entities of Euro Bank S.A. – as a retail bank – is mainly composed of deposits of individuals. The Bank's Strategy for 2016 and related action were aimed at increasing the deposit base and using such products to acquire new customers. Total deposits as at 31 December 2016 grew by 19% compared to the level as at 31 December 2015, as presented in the table below.

Table 4 Comparison of deposits balance (without interest) as at 31 December 2016 and 31 December 2015.

(in kPLN)	**2016.12.31**	**2015.12.31**	**Change**	**% Change**
Term deposits	2 970 255	2 664 658	305 597	11,5%
Current deposits	3 853 040	3 083 156	769 884	25,0%
Total	**6 823 295**	**5 747 814**	**1 075 481**	18,7%

c) Collection activity

In the field of collection, the current operations were affected by legislative changes launched in 2015, including, among others, the abolition of the Bank Enforcement Order and the impossibility to charge debt collection fees in respect of agreements concluded since April 2016.

In terms of debt collection activities, the year 2016 was characterized by stabilization. Global results in terms of new entries into default are under control.

In 2016, the Bank carried out transactions in the debt market to the total amount of over MPLN 334.

In July 2016, the Bank also made a debt sale transaction in the secondary market, acting on behalf of the creditor as the claim portfolio manager.

7. Statement of financial position and financial results

a) Structure of the statement of financial position

At the end of December 2016, total assets amounted to MPLN 13,708 and was higher by 11.5% compared to total assets in the previous year.
As of 31 December 2016, amounts due from customers represented the main part of assets, i.e. 83.1% of the balance-sheet total. Another item is the investment financial assets, representing 12.8% of total assets, and deferred tax assets representing 1.2% of total assets.

Table 5 Assets structure

	2016.12.31	***2015.12.31***	***Dynamics***
Cash and balances with Central Bank	103 286	266 441	(61,2%)
Amounts due from banks	132 793	127 694	4,0%
Amounts due from customers	11 397 855	10 540 466	8,1%
Financial assets held as investment	1 755 950	1 034 795	69,7%
Intangible assets	47 006	45 182	4,0%
Tangible assets	66 527	73 573	(9,6%)
Deferred tax assets	158 774	178 200	(10,9%)
Other assets	46 587	23 782	95,9%
Total assets	**13 708 778**	**12 290 133**	**11,5%**

In December 2015, the Bank's Management Board received information on the proposed allocation of the settlement of the acquisition of Visa Europe by Visa Inc. As a member of Visa Europe, the Bank became one of the beneficiaries of the transaction. The transaction was finalized in June 2016. Under the transaction the Bank received:

- 2 305 C-series shares of Visa Inc. At the initial recognition in the books of the bank (21 June 2016, the day of the operation by Visa Inc) these shares were registered, taking into account the stock exchange value of A-series shares of Visa Inc., the par value of C-series shares in relation to the price of A-series shares at 13.952, and the discount adopted by the Bank. The discount settled over time realigns the valuation of shares in the books of the bank in relation to the limited liquidity of the instrument and the possibility of changing the final number of shares received in connection with possible disputes arising from recognized appeals of Visa Europe members concerning the allocation. The value of shares received was recorded by the Bank as income in the amount of MPLN 6.2,

- the cash portion (MEUR 6.3), which was recognized by the Bank as one-off income of MPLN 27.9,

- the deferred cash payment of MEUR 0.5, which is the liability of Visa to pay the Bank, within 3 years, the amount corresponding to the Bank's share (0.0489%) in the amount subject to distribution (EUR 1.12 billion). At the time of initial recognition, the Bank recorded revenue in the amount of MPLN 2.1, taking into account the discount realigning the value of future expected cash flows.

The total income of the Bank under the sale of Visa Europe shares to Visa Inc as at 31 December 2016 amounted to MPLN 36.2 and has been reported in the income statement as the result on financial operations.

The main liabilities of the Bank are liabilities to customers (50% of total assets), liabilities to financial institutions (32% of total assets) and liabilities for the issue of bonds of the Bank (3.6% of total assets).
On 28 June 2016, as part of the Bond Issuance Program, Euro Bank S.A. issued EBK B 28122019 series securities to the total nominal value of MPLN 250. The nominal value of one bond is kPLN 100, and the issue price equals the nominal value of the bonds. The maturity is 3.5 years, the redemption date falls on December 28th, 2019. The bonds have been offered under public offering. The bonds bear variable interest, payable semi-annually and based on a six-month WIBOR plus the margin.
The bonds are not traded on the regulated market or alternative trading market. On the issue date the bonds were registered with the National Securities Depository and have the ISIN code: PLEURBK00025.
The total nominal value of non-matured bonds issued by Euro Bank S.A. as at 31 December 2016 amounted to MPLN 490.

In 2016 the share capital did not change.

Table 6 Liability and equity structure

	2016.12.31	***2015.12.31***	***Dynamics***
Liabilities to financial sector	4 379 814	4 401 563	(0,5%)
Liabilities to customers and public sector	6 849 692	5 769 968	18,7%
Liabilities on bonds	490 350	240 459	103,9%
Other liabilities	182 594	190 713	(4,3%)
Subordinated debt	331 191	331 165	0%
Equities	1 333 155	1 221 821	9,1%
Net financial result	141 982	134 444	5,6%
Total liabilities	**13 708 778**	**12 290 133**	**11,5%**

b) Statement of comprehensive income

The net banking income in 2016 grew by MPLN 99.7 (15.4%) compared to the previous year, from MPLN 642 to MPLN 741 in 2016. The main factors behind the growth were the following:

- growth in the balance of loans by MPLN 857, giving rise to the increase in interest income by MPLN 63.9 compared to 2015, while maintaining the interest margin at 5.1%,
- one-off income on the sale of Visa Europe shares in the amount of MPLN 36.2,

Operating expenses and depreciation costs in 2016 amounted to MPLN 493.6 vs. MPLN 466.4 in 2015, of which MPLN 25.5 on the tax on assets in force since February 2016.

Costs related to the difference between provisions and revaluation of financial assets grew by MPLN 53.4 (MPLN 126.7 in 2016 vs. MPLN 73.3 in 2015). The main factor contributing to this difference was the recalibration of credit risk models carried out in 2015, as a result of which the write-downs dropped on a one-off basis by MPLN 40.

Table 8 Income statement

(in kPLN)	***2016***	***2015***	***Dynamics***
Interest income	842 099	795 097	5,9%
Interest expense	(202 499)	(219 394)	(7,7%)
Net interest income	639 600	575 703	11,1%
Commission income	109 932	105 230	4,5%
Fee and commission expense	(47 990)	(41 189)	16,5%
Net commission income	61 942	64 041	(3,3%)
Result on financial operations	48 297	-	100,0%
Foreign exchange result	3 147	2 262	39,1%
Fair value adjustment in hedge accounting	(11 911)	-	(100,0%)
Net banking income	741 075	642 006	15,4%
Other operating income	79 172	90 249	(12,3%)
Other operating expense	(19 661)	(24 862)	(20,9%)
Operating costs	(458 463)	(437 005)	4,9%
Depreciation	(35 173)	(29 440)	19,5%
Net provisions and revaluations	(126 722)	(73 291)	72,9%
Gross result	180 228	167 657	7,5%
Income tax	(38 246)	(33 213)	15,2%
Net financial result	**141 982**	**134 444**	5,6%

The Bank's income, referred to in Art. 111a of the Banking Act, amounted to MPLN 820.2 (compared to MPLN 732.3 in 2015).

Table 9 Bank's income

(in kPLN)	***2016***	***2015***
Net interest income	639 600	575 703
Net commission income	61 942	64 041
Result on financial operations	48 297	-
Foreign exchange result	3 147	2 262
Fair value adjustment in hedge accounting	(11 911)	-
Other operating income	79 172	90 249
Bank's income	**820 247**	**732 255**

c) Ratios

Relevant operating efficiency ratios are presented in the table below.

Table 10 Basic operating efficiency ratios

	2016.12.31	***2015.12.31***
Capital adequacy ratio	15,2%	15,1%

ROE	10,0%	10,6%
ROA*	1,0%	1,1%
C/I	61,7%	65,9%
Share of non-performing loans in gross loans	8,0%	8,7%

** return on assets as the quotient of net profit and total assets. The net profit for 2016 amounted to kPLN 141,982, and total assets to kPLN 13,708,778.*

8. Risk management

The risk management system in Euro Bank is based on the following elements:

- the Bank's appropriate organizational structure adjusted to the size and profile of the incurred risk and a division of roles, which ensures the independence of risk identification, measurement or estimation, assessment, control, monitoring and reporting from the operating activity giving rise to the Bank's exposure to risks,
- strategies, policies/procedures updated systematically and describing the distribution of responsibilities in line with the Bank's organizational structure, risk management process, tools supporting the risk management process, the principles governing cooperation between units as well as other rules aimed at ensuring proper operation of the risk management system implemented by the Bank,
- periodic information approved by the Management Board and presented to the Supervisory Board, which presents the types and size of risks in the Bank's activity in a reliable, clear and synthetic manner.

a) Credit and counterparty risks

Credit and counterparty risk is the risk of financial loss incurred due to insolvency of borrowers or counterparties. In granting loans and developing new advanced financing methods, the Bank incurs the risk of the borrower failing to repay the loan or other liability in the agreed period. The Bank is always exposed to this type of risk, irrespective of the form of financing. The risk results mainly from the clients' inability to fulfill their obligations towards the Bank, arising from deterioration in their financial position.
Insolvency risk is assessed by the Bank based on application and behavioral scoring. Scoring assigned to a particular borrower / transaction allows the Bank to determine the probability of the borrower's default.

Identification of credit default events

The Bank's catalogue of default events complies with the New Capital Accord, the catalogue of impairment triggers defined in IAS 39 "Financial Instruments – Recognition and Measurement" and the provisions of Recommendation R of the Polish Financial Supervision Authority.
The list of objective evidence (events of default) takes into consideration both quantitative and qualitative data, including:

- occurrence of an amount past due by more than 90 days on an account of the borrower,
- significant deterioration in the economic and financial position of the borrower or occurrence of other factors which constitute a threat to the repayment of receivables,

- restructuring involving the Bank entering into an arrangement with the borrower, for economic or legal reasons related to the counterparty's difficult financial position which would not be otherwise entered into; in particular, the occurrence of a delay over 30 days in the period preceding the restructuring,
- identification of fraud or obtaining / attempt to obtain a loan under false pretences,
- bringing a legal action to court to obtain a writ of execution,
- expiry of the loan agreement notice period.

Measurement is determined by event identification combined with the size of the credit exposure.

Measuring impairment of credit exposures

The Bank's principles for measuring impairment of credit exposures are based on the principles of the International Accounting Standards, the International Financial Reporting Standards and Recommendation R issued by the Polish Financial Supervision Authority.

For the purposes of measurement the entire credit portfolio was divided into the following sub-portfolios:

- individual (individual material exposures with indications of impairment),
- collective (exposures with indications of impairment, immaterial individually).

The division into homogenous groups was based on:

- product type,
- loan currency (for mortgage loans),
- LTV (for mortgage loans).

Calculating capital requirement on credit risk

The Bank applies a standard method of calculating the capital requirement due to credit risk.

Elements of the credit risk management system

The credit risk management system consists of the following components:

- strategy, policies and procedures;
- credit process organization;
- credit risk assessment, scoring system;
- credit risk mitigation;
- credit risk monitoring.

Credit risk monitoring

The Bank's credit risk is monitored and quantified in a regular process based mainly on an efficient classification system, including appropriate procedures and tools, i.e. the rating system, the early warning system and a mechanism for identification and designation of events of default. The respective procedures are applied to both exposures classified as normal and exposures at risk subject to restructuring and collection. Additionally, the accepted collateral (its value and certainty of use) is subject to ongoing monitoring.

b) Concentration risk

Due to the nature and large diversification of the credit portfolio, the Bank has established the following limits in the concentration of exposure management policy:

- Inter-bank portfolio

The Bank applies limits approved by the Management Board of the Bank, determined under the provisions of the Banking Act with regard to the regulations contained in Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR),

- Loan portfolio

1) The exposure limit for a single exposure / single borrower - the limit of a maximum credit exposure of a borrower is at 0.5% of the recognized capital of the Bank, which represents 1/20 of the limit of a large exposure specified in CRR,
2) Concentration limits in the portfolio are defined based on the Bank's business strategy, among other, the Financial Plan approved by the Management Board and Supervisory Board of the Bank.

The Credit Risk Department is responsible for identifying, measuring and monitoring concentration risk. Pursuant to the internal procedure, the Risk and Analysis Department monitors the use of the limits and thresholds for the credit portfolio on a regular basis. The current use of concentration limits is reported to the Risk Committee on a quarterly basis.

c) Interest rate risk

Interest rate risk management is aimed at limiting changes to the Bank's financial result sensitive to changes in interest rates (NII) and the economic value of capital (EVC) to a level which does not constitute a threat to the Bank's security. The objective is achieved through the optimization of the structure of the Bank's balance sheet, off-balance sheet items and interest margin. In order to ensure effective interest rate risk management the Bank is supported by hedge accounting mechanisms.

The assessment of the total exposure to interest rate risk in the banking portfolio is made based on the analysis of the repricing dates mismatch, basis risk and client's option risk.

In 2016, the Bank made several purchases of long-term treasury bonds to a fixed interest rate, but due to the full hedge of the interest rate risk by way of IRS transactions, the impact of the investment on the risk profile was leveled.

A gap analysis of interest rates, understood as the difference between the value of assets (increased by extended off-balance sheet items) and liabilities (increased by received off-balance sheet items) subject to interest rate changes in the same period, is carried out based on realigned restatement dates. The mismatch thus determined is used to determine the economic sensitivity of equity to a leap change in the market interest rate curve by 100 bps. The Bank limits the sensitivity of net interest income in the horizon of 12 months to the increase in interest rates by 100 bps.

As at 31 December 2016 and 31 December 2015, the above measures do not represent significant levels of exposure to interest rate risk.

	2016	**2015**
Change in economic capital	(3,1%)	(2,4%)
Net interest income sensitivity	0,22%	0,5%

The measures that illustrate the scale of the structural mismatch of revalued PLN assets and liabilities at predetermined intervals in the cross-section of the full term structure of the balance sheet are presented below. The exposure value is calculated in static terms based on the realigned gaps report covering balance sheet and off-balance sheet items sensitive to the interest rate as the ratio of said gap in a given time interval to total assets. CHF exposures have not been covered by limits due to the fact that the asset portfolio is fully covered by funding under the CHF line with the same interest rate type – CHF assets and liabilities are repriced in the period up to 3 months.

As at 31 December 2016, the above measures were as follows:

GAP IN TOTAL ASSETS %		
<=1Y	**(1Y – 5Y>***	**>5Y**
-1,2%	3,3%	0,9%

**Average annual gap*

For comparison purposes, the above items as at 31 December 2015 were as follows:

GAP IN TOTAL ASSETS %		
<=1Y	**(1Y – 5Y>***	**>5Y**
2,5%	2,3%	0,8%

**Average annual gap*

The Bank regularly performs stress tests designed to evaluate the potential loss in scenarios assuming extremely adverse changes in the level of interest rates (historical and hypothetical scenarios).

d) Currency risk

Currency risk is the risk of a deterioration of the financial position due to unfavorable changes in the exchange rates. At the Bank, the risk is generated by a mismatch of assets and liabilities. The Bank does not conduct foreign currency transactions in cash and it does not operate current and deposit accounts in foreign currencies for its clients. The Bank’s currency risk is related mainly to mortgage loans denominated in a foreign currency. The Bank's policy provides for financing new loans based on liabilities denominated in the same currency, which allows the Bank to minimize the currency risk and the currency liquidity risk. Foreign currency items are also generated through foreign currency liabilities and receivables resulting from the Bank's own operations.

On each business day, the Bank measures the exposure to currency risk by determining the current FX position and applies standard supervisory requirements, which involve the calculation of the ratio of the overall position to equity.

The Bank has adopted limits for currency positions as at the end of the day for three currencies: EUR, USD and CHF and for the total foreign-exchange position denominated in PLN. The assessment of the exposure to foreign currency risk is supported by using Value at Risk (VaR).

e) Liquidity risk

Liquidity risk is generates as a result of everyday activity of the Bank under its statutory activities. Daily transactions lead to changes in the structure of the balance sheet, due dates and maturity of its components. Liquidity risk is characterized by two basic factors:

- market liquidity risk – risks related to the situation when the an item of assets cannot be liquidated in a short time without a significant impact on the price,
- funding risk – risks associated with the inability to obtain new or renew the current funding.

The objective of the Bank’s liquidity policy is to ensure safe and effective structure of assets and liabilities and off-balance sheet items and prevent a crisis so that at any given time it can settle its liabilities, i.e. make payments to deponents and settle credit liabilities.

Liquidity management is supported by limits, control mechanisms and cross-section management information prepared for the management at various levels.

It also includes requirements resulting from supervisory liquidity measures calculated on a daily basis. The Bank monitors the liquidity gaps with realigned maturity and due dates of individual items. Available funds were invested mainly in safe and liquid money bills and bonds (mainly money bills and treasury securities) and short-term inter-bank deposits. The limits related to permitted investments are reviewed on a quarterly basis.

The Bank performs stress tests for the estimation of potential losses assuming extremely adverse scenarios affecting the liquidity position of the Bank.

In 2016, the Bank maintained the exposure to liquidity risk on a safe level, meeting the requirements of the local supervisor (supervisory liquidity measures M1 – M4), as well as respecting the provisions on new liquidity measures (LCR, NSFR).

Liquidity ratios		**2016.12.31**	**2015.12.31**
M2	Short-term liquidity ratio	3,27	3,56
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets	1,09	1,04
LCR	Net outflows coverage ratio	231%	186%
NSFR	Net stable funding ratio	122%	120%

The Bank's liquidity was supported by recurring transactions under long-term funding from the parent company and the issuance of bonds on the local market. Additionally, the Bank significantly increased its deposit base, the growth of which was used not only to finance increasing loans but also improved the level of liquidity buffer maintained in liquid assets.

f) Operational risk

Operational risk management at Euro Bank S.A. covers the following:

- identification, measurement (or estimation), assessment, control, monitoring and reporting of operational risk in individual areas of the Bank's activity,
- evaluation of the efficiency of existing controls,
- implementation of actions to minimize this risk.

The operational risk management is based on the Operational Risk Management Strategy as approved by the Bank's Management Board and Supervisory Board. The Strategy contains, among others, the following: the definition of Operational Risk, Operational Risk management principles, the Operational Risk profile and Operational Risk tolerance. The assumptions described in the Strategy are elaborated on in operational internal documents of the Bank, including the Operational Risk Management Procedure, the Operational Losses Declaration Procedure.
Internal documents present the organization and functioning of the operational risk management process at the Bank, and the tools supporting risk management in the Bank. These tools are updated and adapted to the Bank's operation on an ongoing basis, and their cross-analysis ensures an analytical assessment of the Bank's exposure to operational risk. The results of these analyzes are presented on a quarterly basis, at meetings of the Operational Risk Committee or the Internal Control Coordination Committee, as well as provided to the Management Board and the Supervisory Board's Audit Committee (quarterly) and to the Supervisory Board (annually).

9. Capital adequacy

Under the applicable Banking Law and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR), banks are required to maintain own capital at a level appropriate to the level of risk incurred.
The capital management policy at the Bank assumes the maintenance of the levels of capital ratios, respecting the applicable regulations in this regard, the supervisory recommendations, the existing capital buffers and capital measures under Pillar 2.
The measurement of capital adequacy utilizes the total capital ratio, indicating the relationship between the Bank's own funds and the total amount of risk exposure.
The minimum levels of capital ratios required under CRR are:

- 4.5% with regard to Tier 1 core capital ratio,
- 6% with regard to Tier 1 capital ratio,
- 8% with regard to the total capital ratio.

The Polish Financial Supervision Authority recommends Polish banks to maintain minimum capital ratios of 9% for the Tier 1 capital ratio and 12% for the total capital ratio.
In addition, in the letter dated 23 October 2015, the Polish Financial Supervision Authority imposed an obligation on the Bank to maintain capital requirements to cover the risk of foreign currency mortgage

portfolio at the level of 0.44% in relation to Tier1 ratio, and at the level of 0.58% in relation to the capital adequacy ratio. In October 2016, PFSA updated the values of these ratios to the level of 0.36% of the total risk exposure in relation to Tier1 capital ratio and to 0.48% for total capital adequacy ratio. This recommendation is respected by the Bank as of receipt until revoked.
From 1 January 2016, the Bank is obliged to maintain additional regulatory capital requirements for the conservation buffer. In 2016, in accordance with the "Act on macroprudential supervision over the financial system and crisis management" of 5 August 2015, the Bank maintains an additional amount of common Tier1 capital, amounting to 1.25% of the total risk exposure. In 2017, this ratio will remain unchanged. In 2018, this ratio will increase to 1.875%.

Considering the above, the minimum required level of capital ratios for the Bank as of 31 December 2016 is:

- 10.61% for the Tier1 capital ratio
- 13.73% for the total capital ratio

The capital requirement of the Bank has been set in accordance with CRR, taking into account the recommendations of the Polish Financial Supervision Authority in terms of application of national options.
Bank sets capital requirements for credit risk, operational risk and currency risk, and the risk associated with credit valuation adjustment (CVA) using the standard approach. In the structure of capital requirements, the most important is the credit risk requirement.

The following table presents the evolution of capital requirements and capital ratios of the Bank as at 31 December 2016 and 31 December 2015.

Table 11 Capital adequacy

(in kPLN)	**31.12.2016**	**31.12.2015**
Own funds	**1 469 544**	**1 405 008**
Tier 1 capital	**1 268 667**	**1 149 380**
Tier 2 capital	**200 877**	**255 628**
Total risk exposure	**9 673 016**	**9 330 542**
Credit risk	**8 526 111**	**8 069 466**
Operational risk	**1 110 653**	**1 224 761**
Currency risk	**-**	**30 040**
CVA Risk	**36 252**	**6 275**
Tier1 ratio	**13 12%**	**12,32%**
Capital adequacy ratio	**15,19%**	**15 ,06%**

The total capital adequacy ratio calculated as at 31 December 2016 was at 15.19%, and the Tier 1 capital ratio at 13.12%.
As at 31 December 2016, the Bank meets all statutory capital requirements defined by law and the guidelines of the Polish Financial Supervision Authority regarding the level of capital adequacy.

10. Human resources

a) Employment in figures

As at the end of December 2016, the Bank had 2,943 employees, compared to 3,018 employees as at the end of 2015 (down by 2.5% over the year).
As at the end of December 2016, the Bank had 2,918 FTEs, compared to 2,999 FTEs at the end of 2015.
The average age of employees at the end of 2016 was 32.3 years compared to 31.9 years in 2015.
Women represent 70.5% of all employees and the average length of service at the end of 2016 was 5 years.

b) The implementation of the Bank's strategic objectives in the area of human resource management

For many years the Bank has been applying a consistent human resources management policy, the essential elements of which involve investing in the professional development of employees and creating a friendly work environment through the promotion of particularly talented people, and investing in their development.

c) Training and professional development

Bank consistently creates opportunities for personal development by providing access to various forms of education for its employees. The Bank's objective is to support long-term relationship with employees by providing employees with access to knowledge, skills development and career opportunities.
With this objective in mind, the Bank extends and enhances its offer of internal and external trainings. The offer of the Bank include electronic (e-learning) and traditional training.
In 2016, the Bank carried out approx. 16.7 thousand training days (taking into account all forms of development).

d) Development tools

The Bank offers its employees the following development initiatives:

- Evaluation – the annual work assessment process, taking into account the implementation of development objectives supported by managers,
- Assessment Centre/Development Centre – consisting in an individual assessment of the employee's potential and the preparation of a career development plan,
- Coaching, „Start up” – individual forms of preparation of managers and supporting their development to improve managerial competence,
- Manager Academy, Manager's ABC, Manager Career – dedicated complementary training programs for managers,
- Euro Bank's Academy, Director's Academy – initiatives to share expert knowledge and experience within the organization,
- Customer Service Coaching – a form of individual work involving the sharing of best practices among the Distribution Network specialists.

e) Recruitment and employer branding

Euro Bank continued activities in the area of employer branding. As part of these activities the Bank:

- Participated in numerous job fairs promoting work in the Bank,
- Cooperated with universities and student organizations (workshops for students in areas agreed with university authorities),
- The Bank implemented internship programs and mentoring programs for university students,
- The Bank has established a partnership agreement with universities as part of the educational "Business Game" and invested in financing the meetings of practitioners organized by the IT community,
- As a regular element of improvement, the Bank introduced the Candidate Experience tools, which will be improved and developed in the years to come.

11. Other information

On 15 January 2016, the Parliament adopted the Act on tax on certain financial institutions. The Act entered into on 1 February 2016. The banking tax is charged on bank assets decreased by PLN 4 billion, own funds and treasury securities. The tax rate is at the level of 0.44% per annum. The cost of the banking tax for 2016 amounted to MPLN 25.5.

In July 2014, the International Accounting Standards Board issued IFRS 9, which will apply from January 1, 2018, and will replace the previous IAS 39 standard.
The implementation of the Standard will result in a change of the classification criteria for valuation methods and will include three categories measured:

- at amortized cost,
- at fair value recognized in other comprehensive income,
- at fair value recognized through profit or loss.

In terms of classification and measurement of financial instruments, the Bank expects that the classification of financial assets will depend on:

- the results of evaluation of the business model of management of a given assets portfolio,
- the assessment of contractual terms and conditions of a given financial asset in terms of verification whether specific cash flows represent only payments of principal and interest on the outstanding amount.

As part of preparations for the implementation of IFRS 9, the Bank carried out an initial analysis based on the business model and the cash flows test. The change of the approach to the classification of financial assets may result in the necessity of reclassification and to change the valuation principles for a portion of financial instruments held.
In connection with the introduction of the Standard, the Bank does not expect significant changes in the area of hedge accounting. According to the Bank, the new model will positively impact on the quality of financial information more precisely reflecting the structural risk management rules and strategy, and the

use of various forms of hedging it along with the assessment of the impact on various elements of financial statements.

IFRS 9 introduces significant changes in the valuation of non-impaired receivables. The current methodology used to estimate the IBNR impairment will be replaced with the methodology of estimating impairment based on the analysis of the likelihood of occurrence of impairment within 12 months or during the life of the exposure depending on the identification of events resulting in significant increase in the level of credit risk. The estimates of impairment estimation parameters will take into account the expectations regarding the macroeconomic situation, the so-called „forward looking".

In 2016, the Bank developed an initial methodology to estimate impairments in accordance with the rules defined in IFRS 9. In accordance with the provisions of the standard and the proposed methodology, the portfolio of receivables will be divided into 3 segments:

- Segment 1 (Stage 1): Performing: initial recognition. 12-month expected credit losses,
- Segment 2 (Stage 2): Receivables with a significant increase in credit risk: receivables characterized by a significant increase in credit risk. Expected credit losses calculated over the lifetime of the exposure,
- Segment 3 (Stage 3): Impaired receivables. Corresponds currently to a selected group of impaired credits. Losses estimated over the lifetime of the exposure.

Given the shortening of the period for the creation of additional impairments in the horizon of the exposure, the Bank expects a greater volatility of the level of write-downs for receivables in Segment 1 and Segment 2.

The methodology developed by the Bank includes in particular the modeling of PD parameters for portfolios classified by current regulations to the group without impairment. The Bank verified the classification criteria for the group with a significant increase in credit risk, taking into account the class of delays, the value of behavioral scoring and a number of variables describing the future repayments timeliness. The key variable included in the classification is the reaching of a 30-day delay by an exposure. The methodology applies the approximation of the future impairment probability level based on cumulative default curves. The estimates will take into account the expectations regarding macroeconomic developments and will be based on a scenario analysis using statistical models and/or expert opinions. In the impairment calculation base, the Bank will take into both the carrying amount of receivables and the level of unused credit lines. The LGD level will correspond to LGD estimated for the needs of estimating losses for impaired loans. The models used to estimate impairment losses will be covered by the model risk management process implemented in the Bank.

Currently, the analyses of the impact of the Standard on key Bank's processes has been completed, and a new impairment methodology has been developed. The Bank is currently assessing the impact of the new expected loss estimation model on the structure of regulatory capital. Work is in progress on the implementation of changes to the IT infrastructure supporting the portfolio valuation processes and related reporting.

12. Significant events after the balance sheet date

After the balance sheet date, there have been changes in the composition of the Management Board and the Supervisory Board.
On 13 December 2016, Mr Yves Arrouet resigned from the function of a Management Board member, effective as of 31 January 2017.
On 13 December, 2016, the Supervisory Board appointed Mr Mariusz Kaczmarek into the composition of the Management Board, effective on 2 January, 2017.
On 26 January 2017, Mr Krystian Kulczycki resigned from the function of a Management Board member.

Accordingly, the composition of the Management Board of the Bank on the date of signing of this document is as follows:

- Alexis Lacroix — First Vice-President of the Management Board
- Jarosław Nowacki — Vice-President of the Management Board
- Wojciech Humiński — Vice-President of the Management Board
- Marcin Ciszewski — Vice-President of the Management Board
- Radosław Księżopolski — Vice-President of the Management Board
- Mariusz Kaczmarek — Vice-President of the Management Board

On 24 January 2017, the Extraordinary General Meeting of Shareholders of Euro Bank S.A. appointed Mr Mihai Selegean to the Supervisory Board. Accordingly, the composition of the Supervisory Board of the Bank on the date of signing of this document is as follows:

- Giovanni Luca Soma — Chairman
- Didier Hauguel — Vice-Chairman
- Dominika Bettman — SB Member
- Henri Bonnet — SB Member
- Eric Delarue — SB Member
- Krzysztof Jajuga — SB Member
- Małgorzata Lubelska — SB Member
- Sebastian Mikosz — SB Member
- Mihai Selegean — SB Member

13. Activity development prospects

The Bank's development prospects will be significantly affected by macroeconomic conditions, in particular the economic growth, the unemployment level and interest rates. The observed low level of interest rates poses challenges for banks to maintain net interest margin and the stability of the deposit base.

Regulations that will or may have an impact on the financial or organizational situation of the Bank in 2017:

- entry into force of the Act of 10 October 2002 on minimum remuneration for work (Journal of Laws of 2015, item 2008, as amended), aimed at preventing the abuse of civil law contracts and service contracts which are subject to the provisions of the Civil Code on mandate contracts. The Act changes the minimum remuneration for work.

- entry into force of the Act of 23 September 2016 on extrajudicial resolution of consumer disputes (Journal of Laws item 1823), defining the principles of proceedings in matters of extra-judicial settlement of consumer disputes, the obligations of entrepreneurs associated with the extra-judicial settlement of consumer disputes and the principles on keeping of the register of entities authorized to conduct proceedings in matters of extra-judicial resolution of consumer disputes (ADR entities),
- entry into force of the Act of 15 December 2016 amending the Civil Procedure Code and some other acts (Journal of Laws of 2017, item 85), establishing a European Account Preservation Order procedure to facilitate cross-border debt recovery in civil and commercial matters,
- entry into force of the Act of 30 November 2016, amending the Act on Payment Services and some other acts (Journal of Laws item 1997), which aims to introduce a greater choice of payment services and facilitate the transfer of payment accounts. The new regulation introduces the obligation to offer a basic account, which allows to perform basic payment transactions, the possibility of transferring payment accounts, and governs the operation of websites comparing bank offers.
- entry into force of the Act on Mortgage Loans and Supervision over Mortgage intermediaries and agents, which implements Directive no. 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property, and which aims to ensure a high level of protection for consumers, who conclude mortgage loan agreements,
- entry into force of the draft Act on Exchange of Tax Information with Other Countries, which aims to regulate the principles and procedures for the exchange of tax information with other countries, to define the obligations of financial institutions in terms of automatic exchange of tax information and control thereof.
- potential entry into force of the draft Act on Insurance Distribution, implementing Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution. The purpose of the Act is to ensure a high level of consumer protection in the area insurance services distribution. The draft Act covers all insurance intermediaries, insurance and reinsurance companies which directly offer and sell products to customers.
- potential entry into force of the draft Act amending the Penal Code and some other acts, providing for the introduction of the concept of total cost of benefits and reducing the limit on non-interest costs of consumer credit.
- potential entry into force of the Act on the Central Accounts Database, providing for the establishment of a central database of accounts dedicated to collecting, processing and sharing information about open and closed accounts, valid and expired contracts of insurance with investment elements, as well as other products designed to collect, keep or invest funds.
- potential entry into force of the Act amending the Act on Trading in Financial Instruments and some other acts, the purpose of which will be to implement MiFID2 Directive and MiFIR Regulation.
- potential entry into force of the presidential draft Act on the principles of reimbursement of certain claims under loan agreements, defining the rules of reimbursement of claims under mortgage-secured denominated/indexed loan agreements concluded between the creditor and the consumer. The draft Act also provides for the obligation to return the benefits charged by the bank at the disbursement and repayment of the loan due to spread higher than acceptable (indicated by the drafter). Spreads are to be returned by way of reduction of the principal outstanding in respect of the loan being repaid, or paid out in respect of loans already repaid.

- entry into force of the draft Regulation of the Minister of Finance on risk management system and internal control system, remuneration policies and detailed internal capital estimation method.
- implementation of Resolution No. 14/2017 of the Financial Stability Committee of 13 January 2017 on the recommendation for the restructuring of the portfolio of mortgage loans in foreign currencies,
- potential entry into force of draft amendments to Recommendation H concerning the internal control system in banks, which requires banks to implement its provisions by 30 June 2017.
- entry into force of draft amendments to Recommendation Z concerning the internal governance principles in banks,
- announcement of amendments to Recommendation S on good practices in the management of credit exposures secured by mortgages.

Given the external environment, the Bank's strategy in the years 2017-2019 will focus on the following areas:

- strengthening the acquisition of retail customers, including through attractive product offers and further development of digital channels,
- increase in sales of loans through appropriate pricing policies and streamlining their granting processes, and developing various sales channels,
- continuation of work on strengthening the operational efficiency and sales network management,
- maintaining a high quality of service.

According to the plans of the Bank, in 2017 there should be further growth in sales. In the area of liabilities, the objective of the Bank for 2017 is to increase the level of deposits from individuals and increase the share of funding through the issue of own bonds (the first two successful issuances took place in November 2015 and June 2016). The main funding sources will include deposits from individuals and funding received from the Societe Generale Group, the Bank's parent company.

First Vice-President of the Management Board Alexis Lacroix	Vice-President of the Management Board Marcin Ciszewski	Vice-President of the Management Board Radosław Księżopolski
Vice-President of the Management Board	Vice-President of the Management Board	Vice-President of the Management Board

Mariusz Kaczmarek	Jarosław Nowacki	Wojciech Humiński