Euro Bank S.A.

Report of the Management Board on the Bank's activity

for the year ended on 31 December 2018

Wrocław, 11 March 2019

eurobank

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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 Statutes.

Euro Bank S.A. is focused on servicing retail customers. Its activity is based on understanding the needs of and close relationships with Customers – according to the slogan "eurobank - every day". The Bank's offer includes a wide range of financial products and services that meet the expectations of individual Customers. The Bank provides services through a network of nearly 500 branches located across the country. Access to products and services is also offered by well-developed direct channels such as modern electronic and mobile banking as well as a telephone Customer Service Center.

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 2018, and additional information facilitating the assessment of the Bank.

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

Selected financial data of Euro Bank S.A.

(in PLN '000)	***2018***	***2017 transformed data***	***2017****	***Change*****
Net profit	103 083	101 171	102 837	1.89%
Margin adjusted by cost of risk***	622 675	623 724	623 724	(0.17%)
Net interest income	669 853	662 170	662 170	1.16%
Net commission income	44 734	50 585	50 585	(11.57%)
Operating expenses and depreciation	(473 368)	(486 876)	(485 134)	(2.77%)
Result on allowances for expected credit losses	(136 309)	(121 904)	(121 904)	11.82%
Margin adjusted by cost of risk***	622 675	623 724	623 724	(0.17%)
C/I****	62.37%	65.30%	65.06%	(2.93 pps)
ROE*****	6.93%	6.79%	6.76%	0.14 pps
ROA******	0.71%	0.73%	0.75%	(0.02 pps)
Capital adequacy ratio	16.12%	-	16.01%	-
Non-performing loans in gross loans	9.38%	8.69%	8.69%	0.69 pps

**audited data,*

***change determined in relation to transformed data,*

**** 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 level of capitals as at 1 January 2018 and 31 December 2018*
*******return on assets expressed as the quotient of net profit and balance sheet total. The net profit for 2018 amounted to MPLN 103, and the balance sheet total amounted to BPLN 14.5.*

The net profit of Euro Bank S.A. for 2018 amounted to MPLN 103 and is close to the result for 2017 (MPLN 102.8, MPLN 101.2 acc. to transformed data). The following key elements should be considered in the data analysis for 2018:

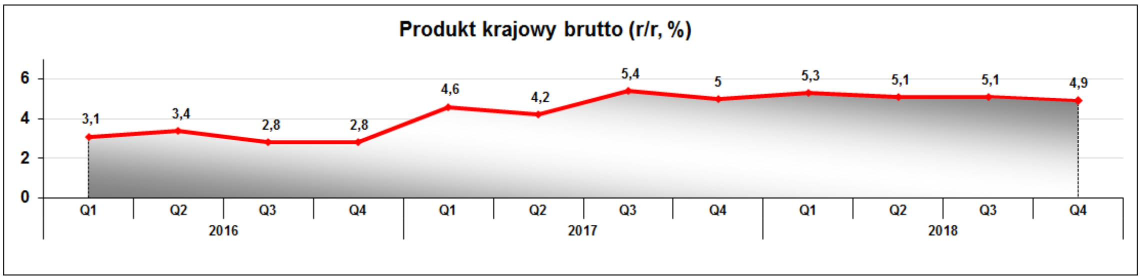
- interest income in 2018 higher by MPLN 7.7 as compared to 2017, resulting mainly from the growth of the stock of loans,
- commission income in 2018 down by MPLN 5.5 compared to 2017,

- operating costs (including depreciation) in 2018 down by MPLN 13.5 as compared to 2017, resulting from an efficient cost policy (drop by MPLN 11.8 compared to audited data),
- higher impairment losses on assets by MPLN 14.4 as compared to 2017, resulting largely from a change in the estimation methodology.

2. Macroeconomic conditions for the banking sector in Poland in 2018

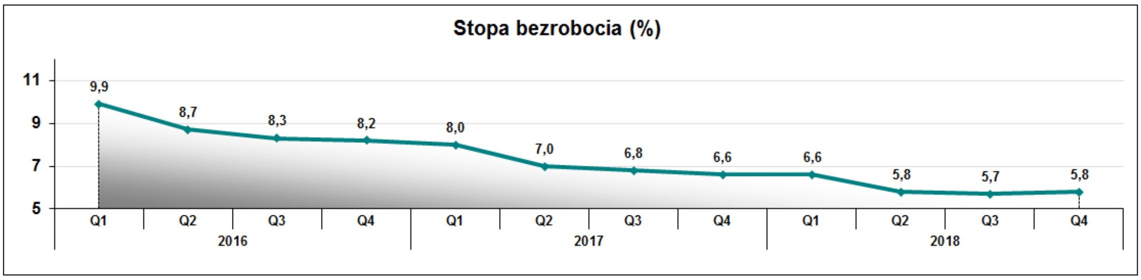
The Bank's financial results are primarily influenced by domestic economic developments and factors affecting the macroeconomic situation in the country.

In 2018, Poland recorded a stable economic growth rate, showing good results in most components of the gross domestic product, including consumption (supported by the Family 500+ program).



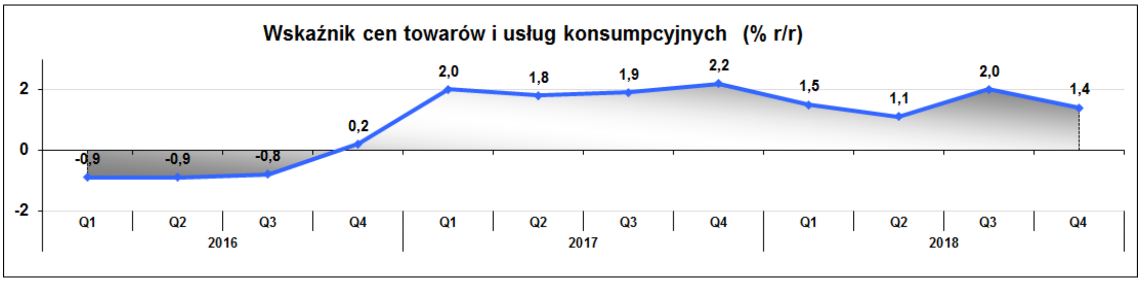
GDP in 2016-2018 (quarterly).

The unemployment rate, which at the end of 2018 was at 6.6% (as compared to 6.6% in December 2017), reached the lowest level in history, supporting economic growth and improving the economic situation of households.



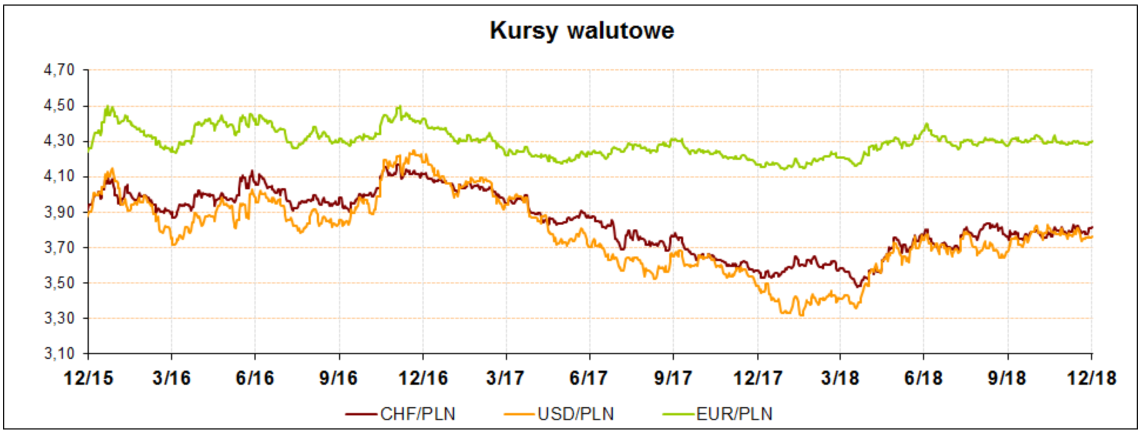
Unemployment rate in 2016-2018 (quarterly, EOP).

In 2018, the consumer goods and services price index remained within the inflation target of the National Bank of Poland.



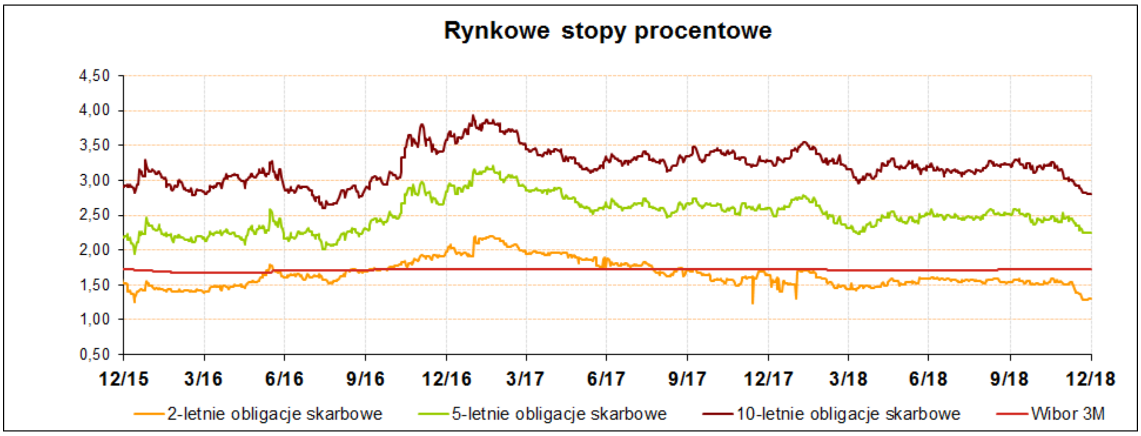
Consumer goods and services price index in 2015-2017 (quarterly).

In 2018, the Polish zloty slightly weakened to major foreign currencies:



Evolution of EUR/PLN, USD/PLN and CHF/PLN exchange rates in 2016-2018.

In 2018, the Monetary Policy Council did not change interest rates. In the last quarter, government bond yields weakened.



Evolution of market interest rates 2016-2018.

3. Regulatory conditions affecting the banking sector in Poland in 2018

In 2018, there have been significant changes in the regulatory environment of the banking sector in Poland. The financial and organizational situation of the Bank in this period was affected by the following legal acts:

Acts:

- Entry into force on, 20 June 2018, of the Act of 10 May 2018 amending the Act on Payment Services and some other acts (Journal of Laws of 2018, item 1075), which deals with the adaptation of European regulations in the field of counteracting money laundering and terrorism financing to the requirements under Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015,
- Entry into force, on 13 January 2018, of the Act of 24 November 2017 amending certain acts in order to counteract the use of the financial sector to tax fraud (Journal of Laws of 2017, item 2491),

the so-called STIR, which concerns the introduction of new solutions to counter the use of the financial sector for tax fraud, including the reduction of the VAT gap. One of the most important changes envisaged in the Act is the obligation to submit the following data to the system maintained by the clearing house (STIR): (i) bank accounts of entrepreneurs and, to a limited extent, savings and current and savings accounts of natural persons not conducting economic activity, and (ii) payment transactions. Banks were also obliged to block accounts at the request of the Head of the National Tax Administration,

- Entry into force, on 1 July 2018, of the Act of 15 December 2017 amending the Act on tax on goods and services and certain other acts (Journal of Laws of 2018, item 62), which introduced new tools, i.e. the split payment mechanism to seal the value added tax system and ensure greater stability of inflows on this tax, as well as to prevent tax evasion. The Act introduced changes to the Banking Act of 29 August 1997. A new chapter 3a entitled "VAT Account" has been introduced, which will provide for the obligation for banks to open and keep VAT accounts,
- Entry into force, on 1 January 2018, of the Act of 29 September 2017 amending the Act on financial market supervision and the Act on Insurance and Reinsurance activities (Journal of Laws of 2017, item 2102), which concerns the implementation of the obligations provided for in Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PTIIPs), and provides for the designation of the Polish Financial Supervision Authority as the authority responsible for supervision, compliance with and enforcement of the provisions of said Regulation and for imposing administrative penalties for non-compliance with the provisions of this Regulation,
- Entry into force, on 20 June 2018, of the Act of 10 May 2018 amending the Act on Payment Services and certain other acts (Journal of Laws of 2018, item 1075), the purpose of which is to implement Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (PSD2),
- Entry into force, on 9 July 2018, of the Act of 13 April 2018 amending the Civil Code and certain other acts (Journal of Laws of 2018, item 1104), which aims to adapt the legal system to the judgment of the Constitutional Tribunal of 25 October 2016 (ref. no. SK 71/13). The change is involves, inter alia, granting a creditor the possibility to submit a request to transform a compulsory mortgage established as part of the mortgage security, which secures a claim already established by an enforcement title,
- Entry into force, on 25 May 2018, of the Act of 10 May 2018 on the Protection of Personal Data (Journal of Laws of 2018, item 1000), which implements Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC.

Regulators requirements:

- Resolution No. 352/2018 of the Polish Financial Supervision Authority of 14 September 2018 amending resolution on the issue of Recommendation T concerning good practices in the area of risk management of retail credit exposures,

- Resolution No. 474/2018 of the Polish Financial Supervision Authority of 18 December 2018 regarding the issue of Recommendation L concerning the role of statutory auditors in the process of supervision over banks and cooperative savings and credit unions,
- Communication of the Office of the Polish Financial Supervision Authority (PFSA Office) of 12 January 2018 regarding selected supervisory expectations in relation to the transitional period related to the implementation of the PSD2 Directive,
- Communication of the Polish Financial Supervision Authority of 21 August 2018 regarding changes in data covered by the entry in the list of investment advisors,
- Communication of the Polish Financial Supervision Authority (PFSA) of 16 January 2018 regarding the publication by ESMA of new documents regarding the introduction of a uniform reporting format for periodic reports (ESEF),
- Communication of the Chairman of the Polish Financial Supervision Authority of 20 August 2018 regarding the costs of supervision over payment institutions in 2017, the sum of contributions paid by all domestic payment institutions in 2017 and the maximum amount due from all domestic payment institutions for 2017,
- Communication of the Chairman of the Polish Financial Supervision Authority of 27 September 2018 regarding the weighted rate and the adjustment rate used to calculate the contributions due from banks to cover the costs of supervision in 2018,
- Resolution No. 7/2018 of the Management Board of the National Bank of Poland of 15 March 2018 amending the resolution on the terms and conditions of opening and keeping bank accounts by the National Bank of Poland – entry into force on 21 May 2018,
- Ordinance No. 14/2018 of the President of the National Bank of Poland of 7 June 2018 amending the ordinance on the method and procedure of calculation, sorting, packaging and marking of banknote and coin packages, and activities related to supplying banks with these notes and coins – entry into force on 1 July 2018,
- Resolution No. 9/2018 of the Management Board of the National Bank of Poland of 15 March 2018 amending resolution on the procedure and detailed rules for banks to provide the National Bank of Poland with data necessary for determining monetary policy and periodic assessments of the monetary situation of the State, and the assessment of banks' financial standing and the banking sector's risk – the resolution entered into force on 1 July 2018,
- Publication of the Office of Competition and Consumer Protection (OCCP) regarding a durable medium – publication dated 26 July 2018,
- Publication of the European Banking Authority (EBA) of 24 July 2018 regarding a new financial instrument on the European Union markets,
- Publication of the European Banking Authority (EBA) of 20 July 2018 regarding TIER 1 instruments,
- Guidelines of the European Central Bank (EU) 2018/1626 of 3 August 2018 amending Guidelines ECB/2012/27 on the Trans-European Automated Real-Time Gross Settlement Express Transfer System(TARGET2) – publication on 9 November 2018.

4. Rating

Euro Bank S.A has a credit rating awarded by the Fitch Ratings agency, which as at 31 December 2018 was as follows:

long term IDR	A-
short term IDR	F1
national long term rating	AA+ (pol)
national short term rating	F1+(pol)
Viability Rating	bb
Support Rating	1

The above ratings were confirmed by Fitch Ratings in its communication of 30 November 2018.

5. The Bank's equity and the shareholding structure

As at 31 December 2018, the Bank's shares were held by 33 shareholders. The shareholders of the Bank held a total of 49 875 645 shares to a total nominal value of PLN 563,096,032.05. The nominal value of one shares as at 31 December 2018 amounted to PLN 11.29.

As at 31 December 2018, Societe Generale Financial Services Holding belonging to the Societe Generale Group, which held 49 769 493 shares and votes at the General Shareholders' Meeting, i.e. 99.79% of all shares and votes, was the only shareholder that held over 5% of the Bank's shares.
Reconciliation of changes in equity in 2018

(PLN '000)	Share capital (funds)	Supplementary capital (fund)	Revaluation reserve	Own shares	Retained earnings	Net profit (loss)	Total equity (funds)
01.01.2018*	**563 096**	**884 364**	**15 031**	**-**	**(28 663)**	**101 171**	**1 534 999**
Adjustment due to implementation of IFRS 9		-	(2 592)	-	(93 932)	-	(96 524)
1 January 2018 – adjusted data	**563 096**	**884 364**	**12 439**	**-**	**(122 595)**	**101 171**	**1 438 475**
Allocation of profit for previous years	-	102 837	-	-	(1 666)	(101 171)	-
Net profit (loss) for period	-	-	-	-	-	103 083	103 083
Payment of dividends	-	-	-	-	-	-	-
Other net comprehensive income for period	-	-	(3 138)	-	-	-	(3 138)
Own shares purchased	-	-		(2 956)	-	-	(2 956)
31.12.2018	**563 096**	**987 201**	**9 301**	**(2 956)**	**(124 261)**	**103 083**	**1 535 464**

**transformed data*

In 2018, there were material changes in the value of the Bank's equity resulting from:

- charging the impact of the implementation of IFRS 9 against equity in the amount of mPLN 119.2 (impact due to revaluation of financial assets, net amount of the impact, including the impact of the deferred tax asset, amounted to MPLN 96.5),
- charging directly against equity of the effects of the accounting adjustment of employee benefit costs, resulting from the incorrect methodology of calculating their base in previous periods, in the

amount of MPLN 34.2 (net value of the impact, including the impact of the deferred tax asset, amounted to MPLN 30,3)

- allocation of the full result of 2017 (MPLN 102.8) to supplementary capital.

In June 2018, the General Meeting of Shareholders adopted a resolution to create a reserve capital in the amount of MPLN 3 towards the purchase of a block of own shares from the majority shareholder. As at 31 December 2018, the reserve capital has been used.
In December 2018, the Bank purchased 99 751 shares from Societe Generale Financial Services Holding, at the nominal value of kPLN 1,126 for the purposes related to the implementation of obligations related to employee bonus programs. The shares were recognized in the Bank's books in the equity adjusting item (own shares) at the purchase value of kPLN 2,956.

In 2018, the Bank received information about the planned sale of the entire block of shares by the majority shareholder. On 5 November 2018, Societe Generale Finance Holding SA signed a conditional agreement on the sale of the Bank's shares with Bank Millennium SA. In December 2018, the Office for Competition and Consumer Protection (OCCP) approved the sale of the Bank. As at the date of approval of this document, the Bank has not yet obtained information about the approval of the Polish Financial Supervision Authority to carry out the transaction. Bank Millennium SA declares that the sale process should be finalized in Q2 2019, and the legal and operational merger of banks will be carried out by the end of 2019.

6. Statutory bodies of the Bank

Composition of the Management Board as at 31 December 2018

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

In the course of the year ended on 31 December 2018, the composition of the Bank's Management Board did not change.

Composition of the Supervisory Board as at 31 December 2018

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

In the course of the year ended on 31 December 2018, the composition of the Bank's Supervisory Board did not change.

7. Statement of financial position and financial results

Structure of the statement of financial position

At the end of December 2018, the balance sheet total amounted to MPLN 14,459 and was higher by 4.8% compared to the balance sheet total in 2017.

The largest item of assets as at 31 December 2018 was represented by amounts due from customers at 84.4% of the balance sheet total. The next item is 'financial assets held as investment', representing 10.8% of the balance sheet total, and cash and operations with the Central Bank accounting for 1.7% of total assets.

Structure of assets as at 31 December 2018 and 31 December 2017

(PLN '000)	**2018.12.31**	**2017.12.31***	**Growth rate**
Cash and balances with Central Bank	247 152	163 237	51.4%
Amounts due from banks	129 614	99 025	30.9%
Amounts due from customers	12 195 894	11 731 301	4.0%
Debt and equity securities	1 566 688	1 494 028	4.9%
Intangible assets	47 835	52 807	(9.4%)
Tangible fixed assets	52 214	62 234	(16.1%)
Deferred tax assets	170 925	155 340	10.0%
Other assets	48 297	43 705	10.5%
Total assets	**14 458 619**	**13 801 677**	**4.8%**

**transformed data*

The main components of the Bank's liabilities were amounts due to customers (53.5% of the balance sheet total), amounts due to financial institutions (28.5% of the balance sheet total) and amounts due to bond issuance (3.4% of the balance sheet total). In November 2018, three-year series A bonds issued by the Bank in November 2015 to a nominal value of mPLN 240 were redeemed.

Structure of liabilities and equity as at 31 December 2018 and 31 December 2017

	2018.12.31	**2017.12.31***	**Growth rate**
Amounts due to financial institutions	4 126 610	4 130 629	-0.1%
Amounts due to customers	7 741 630	6 816 778	13.6%
Amounts due to bond issuance	500 171	740 659	(32.5%)
Other liabilities	203 215	227 047	(10.5%)
Subordinated debt	351 529	351 565	0.0%
Equity	1 432 381	1 433 828	(0.1%)
Net financial result	103 083	101 171	1.9%
Total liabilities	**14 458 619**	**13 801 677**	**4.8%**

**transformed data*

Statement of comprehensive income

The net profit of Euro Bank S.A. for 2018 amounted to MPLN 103. Compared to the result for 2017, amounting to MPLN 102.8 (MPLN 101.2 for comparative data), the structure of the profit and loss account was subject to the following changes.

The net banking income grew by MPLN 4.2 (0.6%) compared to the previous year, from MPLN 717.2 to MPLN 721.4. The factors shaping the result in 2018 were:

- an increase in interest income by MPLN 7.56,
- a drop in commission income by MPLN 5.5, resulting mainly from a lower commission for the distribution of bancassurance products,
- a negative result due to the modification of the terms of loan agreements in the amount of MPLN 3.3, recorded in 2018 for the first time as a result of new regulations under IFRS 9,
- a positive result on the measurement of equity instruments (Visa INC shares) in the amount of MPLN 4.6. In 2017, these instruments were measured at fair value through other comprehensive income. As of 2018, in accordance with regulations under IFRS 9, the Bank recognizes the effects of measurement of these equity instruments directly in the profit and loss account.

Operating expenses and depreciation costs amounted to MPLN 473.4 in 2018 and were lower than costs incurred in 2017 (486.95) by MPLN 13.5, mainly as a result of the effective cost policy of the Bank. An material item in this group is the costs of tax on asset, which in 2018 amounted to MPLN 30.7 (MPLN 29.3 in 2017).

Costs related to the difference in allowances on expected credit losses increased by MPLN 14.4 (MPLN 136.3, compared to MPLN 121.9 in 2017). The higher level of allowances results to a significant extent from the change in estimation methodology resulting from the implementation in 2018 of IFRS 9. The result on allowances was positively impacted by the sale of a NPL portfolio (impact on the result on allowances for credit losses in the amount MPLN 29.1).

Profit and loss account for the financial year 2018 and financial year 2017

(PLN '000)	2018	2017*	Growth rate
Interest income	873 864	866 295	0.9%
Interest expense	(204 011)	(204 125)	(0.1%)
Net interest income	669 853	662 170	1.2%
Commission income	86 953	92 394	(5.9%)
Fee and commission expense	(42 219)	(41 809)	1.0%
Net commission income	44 734	50 585	(11.6%)
Result on modification	(3 251)	0	0.0%
Result on financial operations	(9 711)	(1 528)	535.5%
Foreign exchange result	5 283	4 088	29.2%
Gain/loss on adjustments of the fair value in hedge accounting	9 942	1 886	427.1%
Net banking income	721 431	717 201	0.6%
Other operating income	48 988	47 394	3.4%
Other operating expense	(11 435)	(18 967)	(39.7%)
Operating expenditure	(435 091)	(450 622)	(3.4%)
Depreciation	(38 277)	(36 254)	5.6%
Difference in allowances for expected credit losses	(136 309)	-121 904	11.8%
Gross financial result	149 307	136 848	9.1%
Income tax	(46 224)	(35 677)	29.6%
Net financial result	**103 083**	**101 171**	**1.9%**

**transformed data*

The Bank's revenue, referred to in Article 111a of the Banking Act, in 2018 amounted to MPLN 770.
In 2017, the Bank's revenue amounted to MPLN 765.

(in PLN '000)	2018.12.31	2017.12.31*
Net interest income	669 853	662 170
Net commission income	44 734	50 585
Result on modification	(3 251)	-
Result on financial operations	(9 711)	(1 528)
Foreign exchange result	5 283	4 088
Gain/loss on adjustments of the fair value in hedge accounting	9 942	1 886
Other operating income	48 988	47 394
Total	**770 419**	**764 595**

**transformed data*

Changes in the presentation in the financial statements

In 2018, the Bank adjusted the costs of benefits to employees as a result of incorrect methodology used to calculate their base in previous periods. The adjustments relate to the period 2003-2018 and include, in particular, benefits for holiday pay, related penalty interest and the costs of contributions to the Social Insurance Institution (ZUS). Due to the fact that a significant part of the costs incurred by the Bank pertain directly to previous years, the Bank decided to recognize them in the books through the adjustment of retained earnings. Only amounts related to adjustments for the current year and penalty interest accrued in the current year on amounts outstanding to employees have been recognized in the profit and loss account of 2018.
As a result of the adjustment, the comparative data for 2017 changed. Detailed data are presented in the table below.

Change in the presentation of data for 2017

(PLN '000)	31.12.2017	adjustment	2017 transformed data
Deferred tax assets	151 484	3 856	155 340
Other liabilities	190 698	34 185	224 883
Income tax	(35 753)	76	(35 677)
Retained earnings	-	(28 663)	(28 663)
Operating expenditure	(448 880)	(1 742)	(450 622)

The Bank's balance sheet as at 31 December 2017, including adjustments made, is as follows:

(PLN '000)	**31.12.2017***	**adjustment**	**2017 transformed data**
ASSETS			
Cash and balances with Central Bank	163 237	-	163 237
Amounts due from banks	99 025	-	99 025
Amounts due from customers	11 731 301	-	11 731 301
Financial assets held for sale	1 494 028	-	1 494 028
Derivative instruments in hedge accounting	5 538	-	5 538
Intangible assets	52 807	-	52 807
Tangible fixed assets	62 234	-	62 234
Current income tax receivables	1 677	-	1 677
Deferred tax assets	151 484	3 856	155 340
Other assets	36 490		36 490
TOTAL ASSETS	**13 797 821**	**3 856**	**13 801 677**

LIABILITIES			
Amounts due to banks and financial institutions	4 130 629	-	4 130 629
Amounts due to customers	6 816 778	-	6 816 778
Amounts due to debt securities	740 659	-	740 659
Provisions	2 164	-	2 164
Derivative instruments in hedge accounting	--	-	-
Other liabilities	190 698	34 185	224 883
Current income tax liabilities	-	-	-
Subordinated debt	351 565	-	351 565
Total liabilities	**12 232 493**	**34 185**	**12 266 678**
Share capital (funds)	563 096	-	563 096
Supplementary capital (funds)	884 364	-	884 364
Reserve capital (fund)	-	-	-
Revaluation reserve	15 031	-	15 031
Retained earnings	-	(28 663)	(28 663)
Net profit (loss)	102 837	(1 666)	101 171
Total equity	1 565 328	(30 329)	1 534 999
TOTAL LIABILITIES AND EQUITY	**13 797 821**	**3 856**	**13 801 677**

**audited data*

The statement of comprehensive income for the year ended on 31 December 2017, including adjustments made, is as follows:

(PLN '000)	**2017***	**adjustments**	**2017 transformed data**
Going concern business			
Interest income	866 295		866 295
Interest expense	(204 125)		(204 125)
Net interest income	**662 170**		**662 170**
Commission income	92 394		92 394
Fee and commission expense	(41 809)		(41 809)
Net commission income	**50 585**		**50 585**
Net income on financial operations	(1 528)		(1 528)
Foreign exchange result	4 088		4 088
Fair value adjustment result in hedge accounting	**1 886**		**1 886**
Result on financial assets and liabilities at fair value through profit or loss			
Net banking income	**717 201**		**717 201**
Other operating income	47 394		47 394
Other operating expense	(18 967)		(18 967)
Operating expenditure	(448 880)	(1 742)	(450 622)
Depreciation	(36 254)		(36 254)
Result on allowances for expected credit losses	(121 904)		(121 904)
Gross result on operations	**138 590**	**(1 742)**	**136 848**
Gross profit (loss)	**138 590**	**(1 742)**	**136 848**
Income tax	**(35 753)**	**76**	**(35 677)**
Net profit (loss)	**102 837**	**(1 666)**	**101 171**
Other comprehensive income – items that may be reclassified to the profit and loss account	**15 754**		**15 754**
Net profit (loss) on revaluation of financial assets available for sale	6 592		6 592
- including deferred tax	(1 546)		(1 546)
Net profit (loss) on measurement of derivatives hedging cash flows and fair value (resulting from contracts not settled at the reporting date):	9 162		9 162

- including deferred tax	(2 149)		(2 149)
Items that cannot be reclassified to the profit and loss account	**-**		**-**
Total other comprehensive income	**15 754**		**15 754**
Total net comprehensive income	**118 591**	**(1 666)**	**116 925**

**audited data*

8. 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 minimum required levels of capital ratios, while 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.

On 24 November 2017, the Polish Financial Supervision Authority issued a recommendation to banks regarding minimum capital ratios. According to said recommendation, banks should maintain capital ratios at the regulatory level resulting from CRR, increased by the value of individual capital add-ons and the combined buffer requirement. This means that the level of capital ratios applicable in 2018 should be as follows:

- core capital ratio at 4.5% + 0.56%*add-on + combined buffer requirement,
- Tier1 capital ratio at 6% + 75%*add-on + combined buffer requirement,
- total capital ratio at 8% + add-on + combined buffer requirement.

The combined buffer requirement in 2018 includes the sum of applicable buffers, i.e.

- the conservation buffer at 1.875%,
- the systemic risk buffer at 3%,
- countercyclical buffer at 0%,
- buffer of other systemically important institutions – determined by way of an individual decision of the Polish Financial Supervision Authority, for Euro Bank SA this buffer is at 0%,

In addition, the Bank is obliged to maintain an additional capital buffer, the so-called individual add-on in order to hedge the risk resulting from foreign currency mortgage loans for households. The value of this add-on, in accordance with the decision of the Polish Financial Supervision Authority of November 2017, in 2018 was at 0.53% of the total risk exposure for the Bank. This add-on is composed in 75% of Tier1 capital (this corresponds the capital requirement at 0.4). In December 2018, the Bank received an administrative decision of the Polish Financial Supervision Authority on the withdrawal of the obligation to maintain additional capital buffers for the risk associated with the foreign currency loan portfolio.

Considering the above, the minimum required level of capital ratios for the Bank as of 31 December 2018 was:

- 10.88% for the Tier 1 capital ratio,
- 12.88% for the total capital ratio.

Due to the increase in the applicable value of the conservation buffer, the minimum capital ratios for the Bank in 2019 is at 11.50% for the T1 capital ratio and 13.50% for the total capital ratio, respectively.

For the purpose of measuring and assessing the level of capital adequacy, the Bank decided to amortize the impact of IFRS 9, in line with the possibility defined in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. This Regulation specifies that where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased allowances for expected credit losses, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, the institution should be allowed to include in its Common Equity Tier 1 capital a portion of the increased allowances for expected credit losses for a transitional period over a duration of 5 years.

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.

Capital adequacy

(PLN '000)	**31.12.2018**	**31.12.2017**
Own funds	**1 642 975**	**1 645 114**
Tier1 capital	1 445 945	1 398 089
Tier2 capital	197 030	247 025
Total risk exposure amount	**10 194 308**	**10 273 317**
Credit risk	9 079 667	9 159 072
Operational risk	1 091 866	1 090 134
Currency risk	-	-
CVA risk	22 775	24 111
Tier1 ratio	**14.18%**	**13.61%**
Solvency ratio	**16.12%**	**16.01%**

The total capital adequacy ratio of the Bank calculated as at 31 December 2018 was at 16.12%, and the Tier 1 capital ratio at 14.18%.
As at 31 December 2018, the Bank meets all regulatory capital requirements defined by law and the guidelines of the Polish Financial Supervision Authority regarding the level of capital adequacy.

9. General information of the product offer of Euro Bank S.A. in 2018

In 2018, the Bank consistently implemented its strategy to be the first-choice retail bank for the growing group of individual Customers. The Bank focused on the development of its product offer, remote contact channels, acquisition of new Customer and building long-term relationships with Customers. Positive results in this area are due to the Bank's activities in the development of products and access channels implemented in 2018.

- The number of customers actively using mobile banking increased by 11% compared to the number of customers using mobile banking in 2017.
- The number of customers transferring income or remuneration to the account at the Bank has increased,
- Non-cash transactions with Bank cards grew by 21% compared to 2017**,**
- The average number of products per active customer also increased.

Personal accounts

- The average balance on personal accounts increased by 10% compared to 2017,
- In February 2018, the Bank, in cooperation with MasterCard, carried out activities promoting the multi-currency option in digital channels and on billboards in selected cities,
- In March and April 2018, the Bank carried out a nationwide TV campaign and on digital channels, promoting a simplified account overdraft, the so-called "PLN 600 overdraft", implemented at the end of 2017,
- In August 2018, in place of the existing personal accounts, the Bank proposed a single "W pełni" account, fully free-of-charge and with no additional conditions. While creating a new personal account offer, the Bank took into account that customers use one account for different purposes. It was assumed that for some customers it would be a basic account, and for others it would be an additional account, used, for example, only to make savings.
  A new approach to the offer of a personal account was to propose the choice of a debit card. (a standard or prestige card),
- the "W pełni" account replaced the existing "Na co dzień", "Active" and "Prestige" account packages. At the beginning of August they were withdrawn from the offer. The terms and conditions for keeping existing accounts have been retained.
- Customers, upon opening the "W pełni" account, may immediately activate the PLN 600 overdraft option to the account. The Bank does not charge any commission on this operation, while offering the opportunity to take advantage of a 10-day interest-free period each month. The Bank decided to simplify the overdraft activation procedure. The overdraft agreement may be signed together with the account agreement, and the funds are available on the account usually on the same day after the Bank has carried out the necessary verification and received a positive decision,
- Holders of the "W pełni" account can earn up to PLN 720 annually (PLN 60 per month) with the "Codziennie zyskuję" moneyback program. Customers who use a payment card receive 5% of the transaction made with the card in a number of POS (e.g. restaurants, cinemas). The refund is subject to a condition that the customer must transfer their salary to the account (min. PLM 500) or make a single payment into the account of at least PLN 1500,
- As part of the promotion of the "W pełni" account, local marketing campaigns were carried out, encouraging customers to choose the account at the Bank as an account for salary transfer. As a result of these activities, the number of customers transferring their salaries to the accounts kept

by the Bank increased. Customers acquired through these campaigns hold balances twice as large as other customers acquired in 2018. 99% of them actively use a payment card,

- In connection with the implementation of the requirements of PAD, the Bank introduced a free basic payment account to its offer,
- In September 2018, the Bank implemented PSD2 requirements for handling complaints,
- At the beginning of 2019, the Bank implemented the Mastercard Priceless program, which can be benefited from by MasterCard cardholders. This increases the range of benefits for active users of the "W pełni" account and allows one to win attractive prizes.

Credit cards

In 2018, in the field of credit cards, main activities focused on increasing the issuance and active use of cards:

- The Bank introduced "instant issue" cards, issued to customers directly at branches, without the need to wait for the card to be delivered to the customer,
- The Bank changed the conditions for setting credit card limits and changed minimum credit limits for cards,
- The Bank has conducted numerous promotions aimed at increasing credit card issuance and campaigns increasing the transaction rate,
- The fee for issuing the main credit card was removed and the fee for issuing the additional card was reduced.

The Bank also introduced changes in the customer service process through which:

- As part of the loan granting process, the presentation of the card/overdraft limit available to the customer was implemented,
- The Bank launched the process of increasing credit card limits by phone.

Cash loans

- In 2018, the Bank conducted a number of nationwide marketing campaigns to offer customers promotional cash loan offers. A new, attractive communications platform with the participation of vampires was used to promote loans,
- In order to meet the customer' needs, at the turn of Q1 and Q2, the Bank implemented a number of simplifications in the offer of consolidation loans,
- The Bank continued to offer fixed interest rates in cash loans, without exposing its customers to the interest rate risk,
- In April 2018, the Bank implemented an online platform for the sale of instant cash loans (www.kredyt.eurobank.pl) for all customers, including those who did not yet have any agreements with the Bank. The platform enables fully automatic customer service and granting loans based on automatic decision-making and anti-fraud engines,
- The Bank developed the preparation of personalized loan offers, available to the Bank's customers via electronic channels (online and telephone banking) and in branches,
- In 2018, the Bank continued its cooperation with the European Bank for Reconstruction and Development (EBRD) in the scope of funding environmental projects.

Installment loans

- In 2018, the Bank developed the sale of POS loans in cooperation with key partners operating on home electronics/appliances and interior furnishing markets. The Bank nearly doubled the sale of such loans compared to the previous year,
- The Bank continued to develop the offer of installment loans through a number of promotions communicated by partners.

Mortgage loans

- In 2018, the Bank improved the profitability of mortgage loans compared to 2017, while maintaining a comparable level of sales,
- The Bank introduced optimizations and streamlining of the crediting process,
- In Q1 2018, the Bank actively participated in the "Mieszkanie dla Młodych" (MdM) program, adjusting the product and the process for accepting mortgage applications under MdM.
- The Bank implemented a mortgage loan referral system addressed to the Bank's customers and a system for transferring contacts to customers among Bank branches,
- Bank, in cooperation with the Media Expert chain store, implemented a special offer for own customer with a package of additional bonuses,
- The Bank introduces an eco mortgage loan offer in cooperation with EBRD,
- The Bank implemented a simplified and cheaper appraisal form for real property securing loans.

Savings products

- The Bank increased the value of deposits accumulated on customers current accounts and on term deposits compared to 2017, mainly due to effective CRM activities addressed to current customers,
- In February 2018, the Bank offered its customers foreign currency deposits in EUR, USD and GBP. The most popular are deposits in USD, which stand for over 70% of the value of foreign currency deposits (converted into PLN),
- In June, the Bank offered an online deposit for new funds, with an interest rate of 2.25% for current customers, supported by CRM activities,
- Along with the "W pełni" account offer, the Bank launched three new deposits for new customers: a 3-month deposit for a good start available to new customers, from August 6 to November 30 the Bank offered interest rates at 3% per annum to customers who decided to be active on a newly opened personal account, and a 3-month online and mobile starter deposit with an interest rate of 3% per annum,

  In November 2018, the Bank implemented a new deposit opening process. When placing a deposit, the customer does not need to have cash on them or on the account. Money can be transferred to the deposit account within the next three days.

Investment funds

- The Bank continued work on the implementation of provisions resulting from MIFID and adjustment to the ESMA recommendation,
- In November 2018, the Bank offered Individual Retirement Accounts (IKE) / Individual Retirement Security Accounts (IKZE) programs developed in cooperation with Union Investment. With these products package, the Bank joined the group of institutions offering a comprehensive range of retirement solutions and their benefits.

Insurance

- In 2018, the Bank continued the cooperation with the Europa Group. Within its framework, the Bank together with the insurer prepared insurance proposals for the Bank's customers, and developed a method of their distribution by phone. Customers were given the opportunity to take advantage of stand-alone products, i.e. not linked with other financial products, health policies for children and adults, and home assurance policies.

These products meet the expectations of our customers,

- In May 2018, the Bank, in cooperation with TU Europa, introduced travel insurance to the offer, which can be purchased at www.eurobank.pl.,
- In August 2018, the Bank introduced the "Twój portfel" (Your wallet) insurance to the "W pełni" account, where customers receive the following within the standard package:
    - a refund in case of an unauthorized transaction with a stolen debit card or theft of cash withdrawn from an ATM within 24 hours of withdrawal,
    - covering the costs of obtaining lost personal documents,
    - covering the cost of a new wallet and periodic public transport tickets.

    and as part of the premium package, in addition to the basic scope of insurance included in the standard package:

    - covering the cost of purchasing a new city bag,
    - return of cash in the wallet or city bag,
    - covering the costs of transport tickets (e.g. train, plane) or admission tickets for events (cultural, sports, entertainment) when one cannot participate in them.

Non-cash and cash transactions

- In 2018, the Bank commenced cooperation with Euronet. Under the agreement, all machines installed in the Bank's own branches are dual devices (ATM + CDM) with the recycling function. They also provide withdrawals using proximity technology.
- The Bank's customers made over 16.5 million transactions with payment cards (an increase by 18% compared to 2017) to the total amount of over PLN 1.7 billion (increase by 21% compared to 2017).

Development of remote channels and mobile services

- In January 2018, a new mobile application was introduced, designed in accordance with current trends, featuring convenient personalization features. Application development and adding new functionalities were continued throughout the year
- In April 2018, the Bank launched an innovative process of selling loans for new customers, with a credit decision and payment of funds fully automated in 15 minutes,
- In September, the Bank implemented the mobile banking authorization service via a new mobile application. It allows easy and secure confirmation of transactions.
- The Bank introduced a remote support of new deposit types: in foreign currencies (February) and with deferred payment (November).

10. Important prizes and awards

In 2018, the Bank won the following awards and distinctions:

- Top Employer 2018 Certificate; awarded by the Top Employers Institute for employers who meet the highest standards in employee management policy,
- Institution of the Year 2017; the bank won the title in the following categories: "Best service quality in branches" and "Best service quality via remote channels" (MojeBankowanie.pl, 1 March 2018),
- Special Award of the Director of the FilmAT Festival; the Bank received the award for two films promoting the CSR campaign "Our People Round The World" (FilmAT, 30 October 2018),
- Best Marketing Team 2018; the Bank received an award in the budget category above PLN 10 million. (Mediarun.com, 4 December 2018).

11. General characteristics of the Bank's loan and deposit portfolios

Loan portfolio

The Bank's loan portfolio consists of loans to individuals, in which cash loans and housing loans have a dominant role. Changes in the portfolio structure in 2018 are presented in the table below:

Comparison of the loan portfolio structure as at 31 December 2018 and 31 December 2017.

(PLN '000)	31.12.2018	Share in %	31.12.2017*	Share in %
Mortgage loan	6 350 727	52.1%	6 289 552	53.61%
Cash loan	5 311 267	43.5%	5 100 078	43.47%
Credit card	92 840	0.8%	95 040	0.81%
Other credits and loans	441 060	3.6%	246 631	2.10%
Total amounts due from customers	12 195 894	100.0%	**11 731 301**	**100.0%**

**transformed data*

In 2018, the structure of the Bank's exposure to individual loan products remained at a level similar to that at the end of December 2017. The increase in the other credits and loans item results from the growing exposure in the installment loan portfolio (net value of installment loans as at 31 December 2018 amounted to MPLN 373, compared to MPLN 178 as at 31 December 2017).

Customer deposits

The deposit base of Euro Bank S.A. is composed of deposits for individuals. The total deposit balance as at 31 December 2018 increased compared to the level as at 31 December 2017, by approx. 13,5%. The increase concerned, in particular, the funds accumulated on term deposits (53.7%). On the other hand, the current deposits level decreased.
Comparison of the balance of deposits for individuals (without interest) as at 31 December 2018 and 31 December 2017 (in nominal value)**.

(PLN '000)	2018.12.31*	2017.12.31*	Change	Change %
Fixed term	3 399 295	2 803 267	1 505 221	53.7%
Current	4 308 488	3 987 986	(588 691)	(14.8%)
Total	**7 707 783**	**6 791 253**	**916 530**	**13.5%**

**transformed data*

*** data excluding non-financial business entities. As at 31 December 2018, the Bank held funds accumulated on accounts of economic entities of the non-financial sector in the amount of MPLN 3.4,*

In 2018, customer collected funds on foreign currency accounts offered by the Bank since 2017.

12. Collection activities

In the area of debt collection in 2018, great attention was paid to the introduction of new tools that improve the efficiency of debt collection, including the implementation of a new platform in the call center – Genesys. The Bank also continued work related to the acceleration and simplification of the settlement process.
Global results in the area of new impaired exposures remained under strict control and were better than expected.
In 2018, the Bank continued the process of transactions on the debt trade market, including the sale of debts on the secondary market commenced in 2016, acting on behalf of the creditor as the managing entity of the claim portfolio.

13. Risk management

The risk management system at Euro Bank S.A. is based on:

- 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, acknowledged by the Management Board and passed to the Supervisory Board, which presents the types and size of risk in the Bank's operation in a reliable, clear and synthetic way.

Credit and counterparty risks

Credit and counterparty risk is the risk of financial loss incurred due to insolvency of borrowers or counterparties. The risk results mainly from the Customer's inability to fulfill their obligations towards the Bank, arising from deterioration in their financial position. 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.

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 impairment of credit exposures

The list of default events specified by the Bank complies with the requirements of the New Capital Accord and is identical with the catalog of circumstances indicating impairment as defined in IFRS 9 "Financial Instruments", as well as the provisions of Recommendation R issued by the Polish Financial Supervision Authority.

The list of objective evidence (events of default) takes into consideration both quantitative and qualitative data, including:

- overdue amount over 90 days on the borrower's account,
- 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, in the event of a delay over 30 days within the period prior to the restructuring,
- identification of fraud or obtaining / attempt to obtain a loan under false pretenses,
- bringing a legal action to court to obtain a writ of execution,
- expiry of the loan agreement notice period,
- disappearance of an active market for a given financial asset due to financial difficulties,
- impairment as a result of the events indicated above on another account of the borrower, the so-called "contagion".

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

Measurement of credit exposures with respect to impairment

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);
- original tenor (for cash loans).

Calculation of capital requirement due to credit risk

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

Credit risk management system components

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 non-impaired and exposures at risk subject to restructuring and collection. Additionally, the accepted collateral (its value and certainty of use) is subject to ongoing monitoring.

Concentration risk

he Bank distinguishes three areas in which the risk of concentration is disclosed:

- credit exposures against individuals, constituting the core business of the Bank under its statutory activities,
- exposures on financial markets, being part of the liquidity and structural risk management process, including the allocation of free financial resources and building a portfolio of liquid assets,
- to a limited extent, the concentration risk may be generated by exposures resulting from daily operating activities, being part of the own operations management process.

The Bank has defined the following limits as part of the exposure concentration management policy:

- Exposures in financial markets:
  - internal limits:
    - in relation to nominal amounts of exposures on the interbank deposit market and securities market,
    - for individual types of derivative transactions,
  - external limits based on 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:
    - 25% of eligible capital against an individual counterparty or group of related counterparties,
    - EUR 150 million in relation of a group of related counterparties, of which at least one is an institution.

Based on Regulation (EU) 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (European Market Infrastructure Regulation - EMIR), the Bank benefits from the exemption of intragroup transactions concluded with Societe Generale SA from the central clearing obligation and the obligation to exchange collaterals.

- Loan portfolio

- 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,
- Portfolio concentration limits 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.

Interest rate risk

Interest rate risk results from the exposure of the Bank to adverse impact of interest rate fluctuations in the market. The Bank does not have a trading portfolio and the interest rate risk is fully generated by balance sheet and off-balance sheet items sensitive to changes in interest rates classified in the banking book.

Fluctuations in market interest rates have an impact on the Bank's profit, both in the short and medium terms, and in the long term also affect its economic value. The objective of interest rate risk management at the Bank is to maintain the volatility of the net interest income sensitive to changes in interest rates (NII – *net interest income*) and the economic value of capital (EVC – *economic value of capital*) within the acceptable levels that do not pose a threat to the Bank's security by optimizing the balance sheet structure and off-balance sheet items of the Bank, as well as optimizing interest margins. Measurement of both figures is complementary within the meaning of the full range of interest rate risk in the banking book. The interest rate risk management process at the Bank is additionally supported by hedge accounting mechanisms.

In 2018, the interest rate risk was generated mainly by a structural mismatch related to the increase in cash loans based on a fixed interest rate. In Q1 2018, the Bank reduced the exposure by entering into IRS contracts for 3-5 years for a total amount of mPLN 350, which were all designated to cash flow hedge accounting.

Interest bearing items split by type of the rate as at 31 December 2018 are presented in the table below.

(PLN '000)	**Fixed interest rate**	**Variable interest rate**	**Rate managed by the Bank**	**Total**
Interest bearing assets	**48%**	**50%**	**2%**	**100%**
Non-financial sector	41%	45%	2%	**88%**
Financial sector	7%	5%	0%	**12%**
Interest bearing liabilities	**26%**	**41%**	**33%**	**100%**
Non-financial sector	26%	4%	33%	**63%**
Financial sector	0%	37%	0%	**37%**

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 net interest income and the economic sensitivity of equity to a leap change in the market interest rate curve by 100 bps.

The calculation of the above measures is based on the assumption that the structure of assets, liabilities and off-balance sheet items subject to revaluation, included in the books as at the reporting date, will not change and the Bank will not take any action to change the related interest rate risk exposures. 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 2018, the above measures were as follows:

CHANGE IN ECONOMIC CAPITAL in %	NET INTEREST INCOME SENSITIVITY in %
-2.4%	-0.9%

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 2018, the above measures were as follows:

GAP IN TOTAL ASSETS (%)		
<=1Y	**(1Y – 5Y>***	**>5Y**
-0.9%	2.5%	1.4%

**Average annual gap*

During 2018, all internal measures of the interest rate risk remained well above the minimum limits/warning levels.
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).

Currency risk

Currency risk is the risk of a deterioration of the financial position due to unfavorable changes in the exchange rates. This risk is generated at the Bank due to the mismatch of assets and liabilities in currencies other than PLN, resulting mainly from:

- servicing the portfolio of mortgage loans indexed in CHF, fully financed by CHF deposits from the main shareholder (the portfolio is gradually extinguished after the discontinuation of loan sales in 2009),
- foreign currency service for retail customers in the area of foreign currency current accounts and term deposits as well as cash and non-cash foreign currency settlements,
- foreign currency liabilities and receivables resulting from the Bank's own operations.

The Bank's FX position is managed on the basis of the intra-day limits system adopted by the Bank and the end-of--day limits for items concerning:

- four supported main currencies: EUR, USD, CHF, GBP,
- four technical and settlement currencies: SEK, CZK, NOK, DKK.

On each business day the Bank measures the exposure to currency risk by applying standard supervisory requirements involving the determination of the ratio of overall position to equity. In addition, the assessment of the exposure to foreign currency risk is supported by using the Value at Risk (VaR).
Bank's foreign-exchange position and foreign-exchange position to equity ratio:

FX position as at 31 December 2018

Foreign-exchange position thousand currency units		Total foreign-exchange position in kPLN	Own funds in kPLN	Total foreign-exchange position to equity ratio %
EUR	32	2 290	1 642 977	0.14%
CHF	17			
USD	486			
GBP	28			
DKK	47			
CZK	2			
NOK	117			
SEK	115			

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

Liquidity risk

The Bank's liquidity is the ability to generate positive balance of cash flows within a specified time horizon. The liquidity risk is the effect of everyday activities of the Bank in line with 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 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.

The main funding sources in PLN used by the Bank include retail deposits (approx. 54% of the balance sheet total), long-term funds from the main shareholder (including subordinated loans, approx. 21% of the balance sheet total) and medium-term funding received as a result of bond issuance on the local market (approx. 3.5% of the balance sheet total). In addition, the Bank raises funds from the interbank market and as part of bilateral cooperation with business partners (approx. 2% of the balance sheet total). Liquidity reserves maintained by the Bank on an ongoing basis enable it to secure funds necessary to fulfill its payment obligations in the event of e.g. seasonal outflow of deposits or credit activity dynamics incommensurate with the increase in deposits.

In 2018, the Bank continued to implement the strategy of building long-term relationships with clients ensuring the acquisition of appropriately diversified and stable funding in the form of a deposit base. The concentration of the deposit base, measured by the share of the 50 largest depositors, at the end of 2018 amounted to 1%. Funds of the largest depositors in the part exceeding the guarantee of the Bank Guarantee Fund at kEUR 100 are not treated as stable for the purposes of supervisory liquidity measures.

In November 2018, three-year bonds issued by the Bank in November 2015 to a nominal value of MPLN 240 were redeemed. The redemption of bonds did not translate significantly into the Bank's liquidity position, as it was offset by additional funds obtained from retail clients. The Bank consistently secured a long-term liquidity position by renewing the funds adopted from Societe Generale for terms above 5 years.

The only material foreign currency on which the Bank makes a significant number of settlements is the Swiss franc (CHF). The Bank holds a portfolio of mortgage loans indexed in CHF (successively phased-out after ceasing to sell such loans in 2009), which is fully financed with deposits in the same currency acquired from the Societe Generale Group. As part of foreign currency liquidity management in this area, the Bank focuses primarily on ensuring a safe structure of matching assets and liabilities in terms of maturities, in particular by renewing the maturing deposits accepted from the Societe Generale Group for terms over 5 years.

Available funds are invested in safe and liquid securities, mainly treasury bonds, money bills of the National Bank of Poland and bonds of the European Investment Bank. These assets are characterized by a high level of liquidity and can be easily used as collateral or sold without significant loss of their value. This portfolio is treated as the Bank's liquidity reserve, which will allow it to survive potential crisis situations. The limits related to permitted investments are reviewed on a quarterly basis.

Liquidity management is supported by limits, control mechanisms and cross-section management information prepared for the management at various levels. They include, in particular, the requirements resulting from the Resolution 386/2008 of the Polish Financial Supervision Authority (starting from 1 January 2018, the M3 and M4 measures remained binding for Banks, while the M1 and M2 measures were replaced by the LCR – Liquidity Coverage Ratio) in the scope of calculation and monitoring of supervisory liquidity measures on a daily basis. In accordance with the obligations and principles set out in the Regulation (EU) No 575/2013 of the European Parliament and of the Council, the Bank calculates the LCR – a short-term liquidity measure aimed at ensuring that the Bank has an appropriate level of high-quality liquid assets, which will cover liquidity needs in a period of 30 calendar days in stressed conditions, and the NSFR (Net Stable funding ratio) – a measure of long-term liquidity aimed at ensuring a minimum level of available funding in the medium and long term. The Bank also monitors the liquidity gaps with realigned maturity and due dates of individual items.

In the course of 2018, all internal regulatory and internal liquidity ratios remained well above the minimum limits/warning levels.

Liquidity ratios		**2018.12.31**
M2	Short-term liquidity ratio	2.42
M4	Coverage of illiquid assets and assets of limited liquidity with own funds and stable external funds	1.07
LCR	Net outflows coverage ratio	268%
NSFR	Net stable funding ratio	125%

The Bank regularly performs stress tests for the estimation of potential losses assuming extremely adverse scenarios affecting the liquidity position of the Bank. The results of stress tests are used in particular to set warning thresholds for early warning indicators, the task of which is to identify upcoming liquidity problems and to indicate the Management Board a possible need to launch a liquidity contingency plan.

As part of the planning and budgeting process, the Bank pays particular attention to ensuring that the growth of the loan portfolio is supported by an adequate liquidity funding structure and compliance with regulatory and internal liquidity measures.

Operational risk

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

- identification, measurement or estimation, assessment, control (mitigation), monitoring and reporting of operational risk in individual areas of the Bank's activity,
- operational risk control mechanisms (limits),
- implementation of remedial plans 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 the management of this risk at 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 the above analyzes are presented on a quarterly basis at the meetings of the Internal Control Coordination Committee, as well as submitted to the Management Board and the Supervisory Board Audit Committee (quarterly) and to the Supervisory Board (annually) - in accordance with the documents defining the reporting area. The Bank also provides information on operational risk to external authorities in accordance with the applicable legal requirements.

14. Other information

Starting from 1 January 2018, the new reporting standard IFRS 9 applies, replacing the current standard IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 sets out new rules in the following areas:

- classification and measurement of financial instruments,
- recognition and calculation of impairment,
- hedge accounting.

Classification and measurement of financial instruments

In accordance with the requirements of IFRS 9, financial assets are classified in one of three categories:

- financial assets measured at amortized cost,
- financial assets measured at fair value through profit or loss,
- financial assets measured at fair value through other comprehensive income.

The classification of financial assets is based on:

- the results of the business model assessment in terms of financial asset management and
- characteristics of contractual cash flows for a financial asset.

When determining the business model, the Bank analyzes the method of actual management of its financial assets portfolios in order to implement the adopted general business objective and the future approach of the management staff to the management of instruments in given portfolios.

When assessing the business model, the Bank is guided by the following criteria:

- previous experience and practice in the field of financial asset management,
- reference of management rules at the level of aggregated groups of financial assets, not individual instruments,
- current practice and planned activities regarding the sale of financial asset portfolios,
- risk management in reference to the business model.

The business model in the intention of the management staff does not refer to a single instrument, therefore its assessment is carried out at a higher level of aggregation. The Bank determines whether it intends to implement the following for individual groups of financial assets:

- cash flows from contractual payments throughout the life of the instrument,
- from its sale or,
- from contractual payments throughout the life of the instrument, but with the determination of the potential sale of assets in the future.

Based on the above, the Bank identified the following business models in its operations:

- "retention" – this business model provides for retaining financial assets to obtain contractual cash flows. The Bank has adopted such a business model for the amounts due from the financial sector item and for loans and credits granted to customers. The Bank took into account the fact of selling loan portfolios in the past and the future. However, such transactions always concerned and, as intended by the Bank, will concern only impaired portfolios for which no further recoveries are expected. The Bank's aim is to achieve economic benefits from its loan portfolios throughout the life cycle of products, and a possible sale concerns portfolios, on which such benefits will no longer be obtained.
- "retention and sale" – this business model provides for both retaining financial assets to obtain contractual cash flows as well as a sale thereof. The Bank has adopted such a business model for the portfolio of debt securities previously classified under the terms of IAS 39 to the AFS portfolio (available-for-sale assets),
- "other" – this model applies to financial assets that cannot be included either in the "retention" business model or the "retention and sale" model.

Based on the business models identified in this way, taking into account the results of the SPPI tests (contractual cash flows test; solely payments of principal and interest), the Bank conducts a balance-sheet classification of financial assets and defines the principles of their measurement. The Bank defines a business model each time for a new separate group of financial assets. When the Bank decides to change the model in the area of financial asset management, it will reclassify the entire portfolio of financial assets assigned to a given business model, and the effects related to the change of measurement categories will be recognized on a one-off basis in the profit or loss or in other comprehensive income.

As at the initial recognition date, financial assets classified to individual business models have been divided into smaller portfolios. The Bank reviewed its assets, focusing in particular on the loan portfolio as the most important element affected by IFRS 9, and in particular comprehensively reviewed agreements and regulations of loan products in terms of identification of provisions material from the point of view of the standards set out in IFRS 9. The purpose of the analysis was to identify elements that could not be considered only as repayment of the principal and interest accrued on the principal outstanding.
For the purpose of determining the features of cash flows, the Bank performed a comprehensive review of contractual provisions for individual product portfolios. The Bank performed SPPI tests, taking into account qualitative and quantitative factors in their interpretation.
In the Bank's opinion, all credit products have passed SPPI tests.

The Bank periodically analyzes its business models in the area of asset management and analyzes the features of cash flows resulting from the agreements in force with clients (SPPI tests). The Bank also performs such an assessment and analysis for each new type of financial assets and in case of changes in the terms of agreements concluded with clients. Ongoing assessment of changes covers, in particular, the following areas of agreements:

- interest rate based on the Lombard rate multiplier (application of financial leverage),
- application of the grace period option,
- the early repayment option,
- promotional campaign rules,
- cross-selling and related promotions,
- provisions of interest rate change depending on changes in the financial parameters of the money and capital market.

The determination of the business model in relation to particular groups of financial assets, in combination with the determination of cash flows resulting from the agreement, constitutes the basis for determining the principles for financial assets measurement.

Based on the above, the Bank uses the following measurement methods for material groups of financial assets:

- portfolios of credits and loans granted to clients and amounts due from banking entities were classified by the Bank to the "retention" portfolio. These assets have successfully passed the SPPI tests; therefore, the Bank measures them at amortized cost,
- debt securities were classified by the Bank to the "retention and sale" portfolio. The Bank measures them at fair value through other comprehensive income,
- equity instruments, in particular the shares of Visa Inc., were classified by the Bank to the "other" portfolio. The Bank measures them at fair value with the measurement effect recognized in the profit and loss account. At as the implementation of IFRS 9, the Bank reclassified this asset from the category of assets

available for sale. Accumulated profits/losses recognized so far in other comprehensive income have been recognized in retained earnings, and under IFRS 9 are recognized in the profit and loss account.

Impact of the implementation of IFRS 9 on the classification of financial assets

Financial assets	IAS 39	IFRS 9
Amounts due from customers	loans and other receivables (measured at amortized cost)	financial assets measured at amortized cost
Amounts due from banks and financial institutions	loans and other receivables (measured at amortized cost)	financial assets measured at amortized cost
Debt securities	financial assets available for sale (measured at fair value recognized in other comprehensive income)	financial assets measured at fair value recognized in other comprehensive income
Equity securities	financial assets available for sale (measured at fair value recognized in other comprehensive income)	financial assets measured at fair value are recognized in the profit and loss account

The Bank has not made a decision to use the fair value model through profit or loss for loans, for which the interest rate formula was originally based on a multiplier.

At the initial stage of the analysis of the provisions of product agreement, the Bank initially assumed that it would apply such a measurement model in relation to the credit card portfolio. However, bearing in mind the arguments indicated by the Polish Financial Supervision Authority, included in the letter to commercial banks of 12 December 2017, the Bank decided to apply the measurement at amortized cost. The Bank calculated the carrying amount of this portfolio as at 1 January 2018 based on both methodologies, and the results obtained did not indicate significant differences. The carrying amount of the credit card portfolio at amortized cost amounted to mPLN 95, and at the fair value amounted to mPLN 96.1. A possible effect of the measurement of the credit card portfolio at fair value would therefore not have a significant impact on its balance sheet measurement.

At the same time, in 2018 the Bank took actions aimed at changing the provisions of agreements with clients so that they would not raise any doubts as to the possibility to apply measurement at amortized cost in relation to credit portfolios, in accordance with the requirements of IFRS 9.

As at 31 December 2018, the Bank does not have any agreements, in which the calculation of contractual interest is based on the multiplier formula.

Impairment

IFRS 9 standard introduces significant changes in the assessment of impairment of financial assets.

Under IFRS 9, the Bank estimates allowances for expected credit losses 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. Estimations of the impairment estimation parameters are adjusted based on the expectations regarding the macroeconomic situation, i.e. forward looking approach. The Bank has developed and maintains statistical models that allow for the estimation of forward looking adjustments to the parameters used in the ECL estimation process. In 2018, adjustments to PD parameters were used.

Starting from 2018, the Bank implemented a methodology for estimating expected credit losses. In accordance with the provisions of the standard and the proposed methodology, the portfolio of credit exposures will be divided into 3 segments: Stage:

- Stage 1: original credit exposure recognition segment. Financial assets for which the credit risk did not increase materially since the initial recognition and for which expected credit losses are calculated based on probabilities of impairment in a 12-month horizon,
- Stage 2: credit exposures characterized by a premise indicating a significant increase in credit risk, for which expected losses are calculated over the entire exposure horizon,
- Stage 3: impaired credit exposures, corresponding to the group of impaired loans identified previously in accordance with IAS 39. The expected credit loss is estimated over the exposure horizon.

The methodology developed by the Bank for estimating expected credit losses covers, in particular, the modeling of PD parameters for portfolios classified to the non-impaired group (Stage 1 and Stage 2). 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 Bank defined the so-called general criteria for the classification of exposures to Stage 2 that are identified at the client level. The key general criterion is for any client's exposure to reach a 30-day delay. An additional general criterion is the presence of the client in the quarantine period after reclassification of any agreement to the non-impairment category after previous restructuring. In addition to general criteria, the Bank identified specific criteria for individual product groups that are related to the current behavior of the client, e.g. re-initiation of the debt collection process, external information about difficulties in paying liabilities. The criteria identified by the Bank allow to classify for Stage 2 exposures, whose credit risk is about 2.9-5 times higher than the risk of exposures in Stage 1. The methodology for estimating the probability of an impairment event uses the approximation of the future level of probability of impairment based on cumulative default curves with particular emphasis on current observations.

The estimates of the expected level of losses are verified with the expectations regarding the development of the macroeconomic situation quantified on the basis of scenario-based analysis using statistical models. The final adjustment for expectations regarding the macroeconomic situation is approved by the Management Board of the Bank. In the impairment calculation base, the Bank takes into account both the carrying amount of receivables and the level of unused credit lines, assigning them a relevant level of the CCF parameter. The LGD level used to estimate the allowances corresponds to the LGD estimated for the purpose of estimating the allowance for impaired receivables. As in case of LGD models, PD models are covered by the model risk management process implemented at the Bank.

The implementation of IFRS 9 gave rise to an increase in the balance of allowances for non-impaired receivables as of 1 January 2018. In addition, the Bank identified portfolios as part of impairment estimation, for which adjustments were made due to the expected macroeconomic situation and uncertainty in the estimation of some parameters, the so-called forward looking approach.

The effects of the change in the method of measurement of expected credit losses as of the date of implementation of IFRS 9 were charged to retained earnings. The table below presents the impact of the new standard on the opening balance of 2018.

(PLN '000)	31.12.2017*	reclassification (1)	revaluation (2)	01.01.2018
ASSETS				
Cash and balances with Central Bank	163 237	-	-	163 237
Amounts due from banks	99 025	-	10	99 035
Measured at amortized cost	99 025	-	10	99 035
Customer loans	11 731 301	-	(117 311)	11 613 990
Measured at amortized cost	11 731 301	-	(117 311)	11 613 990
Available-for-sale financial assets	1 494 028	(1 494 028)	-	-
Debt instruments	1 484 659	(1 484 659)	-	-
Equity instruments	9 369	(9 369)	-	-
Financial assets measured at fair value through other comprehensive income	-	1 484 659	-	1 484 659
Debt instruments	-	1 484 659	-	1 484 659
Financial instruments measured at fair value through profit or loss	-	9 369	-	9369
Equity instruments	-	9 369	-	9369
Derivative instruments in hedge accounting	5 538	-	-	5 538
Intangible assets	52 807	-	-	52 807
Tangible fixed assets	62 234	-	-	62 234
Income tax assets	157 017	-	-	153 161
Current income tax receivables	1 677	-	-	1 677
Deferred tax assets	155 340	-	22 640	177 980
Other assets	36 490	-	(356)	36 134
TOTAL ASSETS	**13 801 677**	**-**	**(95 017)**	**13 706 660**
LIABILITIES				
Amounts due to banks and financial institutions	4 130 629	-	-	4 130 629
Amounts due to customers	6 816 778	-	-	6 816 778
Amounts due to debt securities	740 659	-	-	740 659
Provisions	2 164	-	1 507	3 671
Derivative instruments in hedge accounting	-	-	-	-
Other liabilities	224 883	-	-	190 698
Current income tax liabilities	-	-	-	-
Subordinated debt	351 565	-	-	351 565
Total liabilities	**12 266 678**	**-**	**1 507**	**12 268 185**
Share capital (funds)	563 096	-	-	563 096
Supplementary capital (funds)	884 364	-	-	884 364
Reserve capital (fund)	-	-	-	-
Own shares		-	-	-
Revaluation reserve	15 031	(2 592)	-	12 439
Retained earnings	(28 663)	2 592	(96 524)	(122 595)
Net profit (loss)	101 171	-	-	101 171
Total equity	**1 534 999**	**-**	**(96 524)**	**1 438 475**
TOTAL LIABILITIES AND EQUITY	**13 801 677**	**-**	**(95 017)**	**13 706 660**

**audited data*

a. Reclassification of securities. The Bank assessed the business model of debt securities held, classified under IAS 39 to the available-for-sale financial assets portfolio. Under the terms of IFRS 9, the Bank classified debt securities in the "retention and sale" portfolio, and reclassified them to the category of financial assets measured at fair value through other comprehensive income.

Equity securities held (Visa Inc. shares) are classified by the Bank as measured at fair value and recognized in the profit and loss account. The effects of previous measurement, recognized in other comprehensive income, at the time of the initial recognition under the IFRS 9 standard, were transferred by the Bank to the retained earnings item.

b. The revaluation of the loan portfolio, trade receivables from counterparties (presented under other assets item) and provisions for off-balance sheet liabilities.

Presented below are the allowances for expected credit losses and provisions recognized by the Bank as at 1 January 2018, broken down by Stages.

(PLN '000)	Stage 1	Stage 2	Stage 3	total
Allowances for expected credit losses - amounts due from banks	2			2
Allowances for expected credit losses on the portfolio of credits and loans from clients measured at amortized cost	48 476	111 053	776 600	936 129
Allowances for expected credit losses for other receivables	9 756			9 756
Provisions for off-balance sheet liabilities	140	927		1 067
Other provisions	440			440
TOTAL	**58 814**	**111 980**	**776 600**	**947 394**

The table below presents the carrying amount of the Bank's assets and liabilities resulting from the implementation of IFRS 9 as at 1 January 2018.

(PLN '000)	IAS 39	IFRS 9	change
Amounts due from banks	99 025	99 035	10
Amounts due from customers	11 731 301	11 613 990	(117 311)
Other assets	36 490	36 134	(356)
Provisions	2 164	3 671	1 507
- of which provisions for off-balance sheet liabilities granted	-	1 067	1 067
- of which provisions for debt securities	-	440	440

The value of other financial assets and liabilities items presented in the financial statements as a result of the implementation of IFRS 9 has not changed. The implementation of IFRS 9 did not affect the value of financial liabilities as at 1 January 2018.

In the hedge accounting area, the Bank decided, based on the provisions of par. 7.2.21 of IFRS 9, to continue applying the hedge requirements and relationships under IAS 39.

The total value of the impact of IFRS 9 in the amount of kPLN 119,164 and the increase in the net deferred tax asset resulting from the implementation in the amount of kPLN 22,640 decreased the balance of retained earnings as at 1 January 2018. In addition, as at the date of initial recognition, the Bank reclassified to the retained earnings the amount of the revaluation reserve of financial assets, for which the Bank adopted the measurement at fair value through the profit and loss account in the amount of kPLN 2,592.

Compared to the disclosure of the impact of the implementation of IFRS 9 as at 1 January 2019 in the annual financial statements for 2017, the Bank made the following changes:

- The reclassification and adjustment of the estimated value of credit losses for exposures in Stage 1 and Stage 2. In 2018, the Bank revised the methodology for estimating impairment losses on non-impaired receivables, in particular adopted additional criteria for classifying exposures to Stage 2 and changed the estimation method of the PD parameter. As a result of the implemented changes, the impact of the new methodology for estimating impairment losses on non-impaired receivables on the opening balance of 2018 slightly increased.

- Change in the presentation of the value of credit exposures. Until now, for impaired exposures classified to Stage 3, the Bank only recognized the value of impairment interest as part of the gross value of the exposure. Currently, the Bank introduces a definition referring to interpretations issued to IFRS 9, according to which the gross value of such exposures should be recognized as the sum of principal debt and contractual interest, taking into account measurement at amortized cost. For the added value of the gross exposures (interest) the Bank will create an additional allowance in the same amount. Adjustment of interest income, reducing the interest income of exposures classified to Stage 3 to the level of impairment interest, is recognized as an element of impairment loss for expected credit losses. The increase in the gross value of credit exposures and the related increase in allowances as at the time of initial recognition under IFRS 9 will amount to mPLN 163. The above change has no effect on the net balance sheet value of exposures and the values recognized in the profit and loss account.

Impact of IFRS 9 on capital adequacy

For the purpose of measuring and assessing the level of capital adequacy, the Bank decided to amortize the impact of IFRS 9, in line with the possibility defined in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. This Regulation specifies that where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased expected credit loss provisions, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, the institution should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period over a duration of 5 years.
As a result of the implementation of IFRS 9 and using the capital requirements of the above transition period regulations for regulatory calculations, the Tier 1 capital ratio and the Bank's total capital ratio will not be significantly reduced.

(PLN '000)	IAS 39	IFRS 9	change
Own funds	1 645 114	1 612 870	(32 244)
Tier 1 ratio	13.61%	13.32%	(0.29 pps)
Total capital ratio	16.01%	15.73%	(0.28 pps)

In 2018, the Bank also launched preparations for the implementation of the IFRS 16 "Leases".

As of the reporting periods beginning after 1 January 2019, the new reporting standard, IFRS 16 "Leases", will apply to the recognition and presentation of leases. This standard was issued by the International Accounting Standards Board on 13 January 2016. The new standard presents a comprehensive model of identification of lease agreements and their settlement in the financial statements of lessors and lessees, and replaces IAS 17 Leases. The standard introduces changes to the settlement principles on the part of the lessee, and departs from the distinction between operating and financial lease. The standard, however, does not introduce material changes to the requirements for lessors. They still recognize operating and financial leases as two separate types of lease.

In accordance with IFRS 16, a lessee recognizes the right to use an identified asset and the liability under lease. The right to use an asset is treated similarly to other non-financial assets, and its costs are recognized in the profit and loss account through amortization. Lease liabilities are initially measured at the current value of lease payments payable during the lease period, determined using the marginal interest rate.

In accordance with IFRS 16, a contract is of a lease nature if the lessee, in return for consideration, has the right to exercise control, including the collection of economic benefits for the use of an identified asset for a specified period of time. A contract can be considered a lease contract if it meets the following criteria:

- the performance of the terms of the contract applies to a specific asset that is identifiable either unequivocally or implicitly, and the lessor cannot have a material conversion right,
- the contract transfers the right to control the use of an asset in return for consideration. The lessee has the right to use and to receive economic benefits from the use of this asset.

In accordance with the provisions of IFRS 16, there is a possibility of exemption from the requirements of the standard in two cases:

- leases for which the underlying asset is of low value, with the Bank accepting the threshold of the so-called low value assets at the level of USD 5,000.
- short-term contracts with a lease term of 12 months or shorter.

In the aforementioned cases, lease payments are recognized over the lease period in profit or loss using the straight-line method or in another systematic manner.
At the Bank, the regulations of the IFRS 16 standard apply, in particular, to contracts for the rental of buildings (the Bank's HQ and bank branches) and the lease of means of transport.
In the course of analyses, the Bank identified short-term and indefinite-time branch and parking space lease contracts with the option of short-term notice. The Bank did not cover them by presentation changes set out in IFRS 16.

The implementation of IFRS 16 means changes in the recognition and accounting of lease contracts.
The bank decided to implement the standard using the simplified method. It assumes the recognition of an asset at the time of the entry into force of IFRS16. The determination of lease assets and liabilities is made only for those contracts for which, as at the implementation date, the period until the end of the contract is over 12 months. The Bank recognizes a right-of-use asset in the value of lease liability, without adjusting the opening balance.

The application of the new standard has an impact on the recognition, presentation, measurement and disclosure of assets under operating lease and the corresponding liabilities in the financial statements of the Bank as the lessee. The implementation of the Standard resulted in an additional asset item in the Bank's balance sheet (right-of-use assets) and liabilities (liability under lease) in the estimated value of MPLN 91.
The Bank estimates that the new recognition of lease in the accounting books will not have a material impact on the financial standing and the profit and loss account.

The table below presents the estimated impact of the implementation of the standard on the Bank's balance sheet as at 1 January 2019

(PLN '000)	Assets	Liabilities
Lease (contracts in PLN)	57 356	57 356
Lease (contracts in EUR)	31 214	31 214
Leasing of means of transport	2 184	2 184
TOTAL	90 754	90 754

15. Activity development prospects

The Bank's development prospects in 2019 and subsequent years 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.

The core strategic objective of the Bank is to develop long-term relationships with retail Customers while ensuring access to a wide range of daily banking products and high service standards. In the coming periods, the Bank will continue its activities aimed at strengthening its business and image as a modern and friendly financial institution with a strong capital base and a safe risk profile.

Due to the conditional sale agreement already concluded, in case of its effective implementation, the Bank's development prospects and strategy will be defined by the new owner.

Below, the Bank presents regulations that will or may have an impact on the financial or organizational situation of the Bank in 2019:

- Potential entry into force of the government draft Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution and some other acts,
- Potential entry into force of the draft act amending the Act on Financial Market Supervision and some other acts,
- Potential entry into force of the ministerial draft act amending the Act on Financial Market Supervision and some other acts,
- Potential entry into force of the government draft Act amending the Bankruptcy Law and some other acts (liberalization of consumer bankruptcy),
- Potential entry into force of the regulation of the Council of Ministers on the method of creating, recording, transmitting, storing and securing documents related to banking activities, prepared on IT data carriers,
- Potential entry into force of the draft act amending the Act on Competition and Consumer Protection and some other acts,
- Potential entry into force of the government draft Act on the liability of collective entities for acts prohibited under penalty and amending certain other acts,
- Potential entry into force of the legislative package on non-performing loans, developed by the European Commission,
- Potential entry into force of the European Commission legislative package on strengthening EU consumer law (so-called New deal for consumers),
- Potential entry into force of the Directive of the European Parliament and of the Council laying down rules facilitating the use of financial and other information for the prevention,

detection, investigation or prosecution of certain criminal offences and repealing Council Decision 2000/642/JHA,

- Potential entry into force of Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (EU L 156/43 of 19.6.2018) (5th AML Directive) and Directive of the European Parliament and of the Council 2018/822 of 23 October 2018 on combating money laundering by criminal law (4th AML Directive),
- Result of pending case C-260/18 before CJEU on denominated/indexed loans,
- The result of pending case C-383/18 before CJEU within the scope of Article 49 of the Consumer Credit Act,

Considering the external conditions, the Bank's strategy in the next periods will focus on the following areas:

- maintaining high quality of services,
- strengthening the acquisition of retail Customers, including through attractive product offers and further development of remote channels,
- increasing the sale of loans through appropriate shaping of the pricing policy and streamlining loan granting processes, and developing various sales channels,
- maintaining a stable capital and deposit base and diversifying sources of funding through subsequent issues of debt securities on the local capital market,
- continuing work on strengthening operational efficiency and management of the sales network.

16. Human resources 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.

Employment in figures

As at the end of December 2018, the Bank had 2 687 employees, compared to 2 884 employees at the end of 2017.

As at the end of December 2018, the Bank had 2,665 FTEs, compared to 2,860 FTEs at the end of 2017. The average age of employees at the end of 2018 was 33.1 years compared to 32.6 years in 2017. Women represent 70% of all employees and the average length of service at the end of 2018 was 5.7 years. Over 77% of employees have higher education.

Training and professional development

The Bank's objective is to support building long-term relationships with employees by providing access to knowledge, development of competences and career opportunities. The Bank's employees participate in traditional and electronic training (e-learning). The majority of people trained at the Bank are participants of flexible electronic training (90% of all participants). Electronic training time represents 30% of all trainings.

The total time of participation in electronic training is 5,343 working days, which is over 13 hours per employee.

In case of electronic training, the main areas of development are:

- substantive knowledge in the field of banking products and services (60%),
- areas related to operational risk (28%),
- the remaining 12% are training in customer service standards, ethics in business and others.

In 2018 traditional trainings at the Bank covered 9,327 participants, and the average number of training hours per employee (on a managerial or specialist position) amounted to 37.

The Bank focuses on activities that promote internal development. 77% of participants in traditional training participated in trainings carried out by teams of internal trainers. In addition, expert knowledge within individual workshop meetings is shared by employees acting as coaches of customer service, mortgage products experts and specialists in telephone customer service quality.

In 2018, the Bank held 12,258 traditional training days, among others, in the following areas:

- implementation trainings – 33%,
- bank products and services – 16%,
- customer service standards – 11%,
- managerial – 11%,

For several years, the Bank has also had in place development programs for managers and key employees:

- talent development program for 3 position levels: specialist, line manager, middle-level manager,
- managerial skills development programs,
- knowledge and expert experience sharing programs,
- a coaching skills development program for future internal coaches.

The Bank also implements individual employee development programs. Tools supporting these processes are:

- Evaluation – the annual work evaluation process, taking into account the implementation of development goals supported by the manager,
- Assessment Centre/Development Centre – involving an individual assessment of the employee's potential and preparation of a career path development plan,
- Coaching, „Start up" – individual forms of preparation of managers and support of their development in the field of improving managerial competences,
- 360 and 270 evaluation – as a tool on the basis of which Managers can plan their development.

An important aspect of development is the policy of promotion and internal promotions. When looking for an employee, the Bank first uses the possibility of acquiring them as part of internal recruitment. The Bank acquires external employees only for the lowest positions in the structure or highly specialized positions. Nearly 25% of vacancies are filled by way of internal recruitment.

In 2018, as many as 616 individuals were promoted to managerial positions or moved to a higher (requiring higher competencies) positions, of which 43 employees were promoted from a specialist to a manager.

In order to ensure effective implementation of HR policy, the Bank established the HRBP team composed of 6 experts. Their main tasks include:

- supporting individuals joining the Bank and returning after long-term absences as part of the adaptation process,
- supporting managers in the field of recruitment, employee implementation, building development plans and succession,
- monitoring the development of employees and building development programs for employees with managerial potential,
- conducting activities in the field of employee retention and exit interviews,
- supporting managers in difficult employee-oriented situations, including change management.

Dialogue with Bank employees

The Bank monitors the level of employee satisfaction by conducting periodic surveys in this area. The last survey was participated by 1,709 employees, representing 81% of those invited. Four values are measured (cooperation, level of innovation, responsibility, commitment). As part of the survey, employees had the opportunity to identify areas in which they notice significant improvement and those that still need improvement.

As part of the study, employees highly appreciated the atmosphere at work (77% satisfied), mutual respect (86% satisfied), openness to new ideas (80% satisfied), managers giving regular feedback (82% satisfied) and a sense of influence on the result (85%).

As a result of this study, in 2018 the Bank planned and implemented measures that support the improvement of performance in worse-rated areas. These activities were implemented at the central level and within the framework of intra-departmental plans and activities. This is also reflected, among others, in the employee referral program that is part of employer branding under the "you have that special something" model.

The Bank conducts a dialogue with employees regarding important areas, including benefits and social allowances. The Bank continuously improves the benefits policy, promoting a healthy, active life and meeting the expectations of employees.

In terms of the benefit policy, the Bank aims to match the offer to the needs of employees. It is also a family-friendly employer. The Company Social Benefits Fund, benefited by 1981 employees, to a large extent includes support for children and the organization of holiday rest. In the area of social benefits and other important issues related to employee matters, social dialogue is conducted with the trade union organization.

The Bank is sensitive to all kinds of unethical activities or inconsistent with the standards of cooperation, which is why for many years it allows anonymous reporting of any irregularities, including those that are illegal, such as discrimination, through a dedicated "Intervention" mailbox. The Bank also has in place an anonymous whistleblowing process.

Recruitment and building the image of an institution as a desirable employer

The Bank continued activities aimed at building the image of a desirable employer (*employer branding*). As part of these activities, the Bank:

- Participated in numerous job fairs promoting work at the Bank,
- Cooperated with universities and student organizations (carried out workshops for students in areas agreed jointly with the university authorities),
- Implemented internship programs and mentoring programs for university students,
- The Bank established a partnership agreement with universities as part of the "Business Games" educational organization and invested in co-financing meetings of practitioners organized by IT communities,
- As a permanent development element, the Bank implemented the Candidate Experience tools, which will be improved and developed in next years.
- In 2018, the Bank won the Top Employer 2018 certificate, which confirmed the application of high standards in the field of staff policy.

For more than 46% of employees, the place of work is Wrocław, where the Bank's Head Office is located and where the Bank is a recognizable employer, actively involved in cooperation with local institutions, especially educational ones. In 2018, as part of such cooperation, the following projects were implemented:

- with the University of Economics:
    - ✓ permanent cooperation as part of an EU-funded project, under which the Bank accepted 18 trainees for 3-month internships in 5 different areas (including HR, process management, product development, after-sales service, accounting),
    - ✓ sponsorship of the Game for students of Strategic Management, at the end of which the Bank prepared a workshop on processes,
    - ✓ a mentoring program under which UE students cooperated with practitioners from Euro Bank,
- Internship programs with other universities, which allowed for development for 35 students,
- Participation (twice) in the Absolvent Talent Days – job fair addressed to local universities, where representatives of the Bank presented career opportunities in banking,

17. Corporate social responsibility at Euro Bank S.A.

Over recent years Euro Bank S.A. has undergone a thorough change of the business model. The Bank transformed from "consumer finance" into a retail bank. One of the key aspects of its transformation is building relationships with Customers – uncomplicated, friendly and effective. The Bank focuses on accessibility and consistently expands the range of products. In addition to the branch network, the Bank's Customers may use telephone, internet and mobile banking. The Bank also consistently extends the scope of communication with the Customer, including via social media.

The financial aspect of the Bank's operation as a commercial institution is undoubtedly very important but insufficient to ensure the organization's sustainable development in the long-term perspective. The Bank's priority is to operate based on trust and respect for ethical principles as well as openness and dialogue with all stakeholder groups: employees, customers, shareholders and local communities.

The Bank has implemented the "Culture&Conduct" Code established by the Societe Generale Group, adopted by the Management Board of the Bank, which defines the values and commitments, and rules of conduct of persons and teams. It includes, among others, the rules of conduct for 4 groups of stakeholders: customers, employees, investors and goods and service providers.

The Bank makes every effort to ensure that the adopted Code is complied with and all actions taken by the Bank comply with it.

Relationships with Customers

Providing Customers with the highest quality of service and security of funds entrusted by Customers is one of the priorities of conducting sustainable business, as defined in the current business strategy of the Societe Generale Group and Euro Bank S.A.. The Bank's goal is to offer products and services that are tailored to the needs and risk profile of Customers. When designing new products or modifying existing ones, the Bank verifies whether a given product corresponds to the real need of the Customers to whom it is addressed. This verification is carried out as part of the formalized New Products Implementation Process. When a Customer applies for a given product, the Bank makes sure that he/she does not act under the influence of third parties and fully understands what he/she is applying for. The Bank implements this approach through appropriate training of sales employees and keeps this commitment through a fair and quick complaint handling process.

The Bank communicates with Customers in a simple and transparent way, trying to use a language understandable to the Customer. The Bank takes care of this through regular Mystery Shopper campaigns at branches and quality controls at the Customer Service Center.

The Bank provides its Customers with multi-channel access to products and services so that they can use them in a convenient way.

The Bank also implemented the possibility to submit applications under the "Family 500+" Program via online banking. It is the Bank's response to the growing needs of Polish families and a perfect example of the positive role of the entire banking sector in the digitization of Polish offices.

Natural environment

The Bank pays attention to issues related to the protection of the natural environment.

The Bank minimizes its impact on the environment through rational materials management, reducing water, energy and fuel consumption, introducing pro-environmental solutions in its operations.

The Bank's pro-ecological approach is also reflected in the area of the car fleet. All company cars comply with the Euro5 emission standard. The bank also uses environmentally friendly cars with an LPG system.

Social issues

One of the basic principles of the "Culture&Conduct" Code adopted from the Societe Generale Group, which we follow in the conduct and development of our business, it the respect for fundamental human and social rights and respect for the natural environment. Both inside the Bank and in relations with external entities, we maintain relationships based on trust and mutual respect. We also care about compliance with the principles of transparency and reliability of information provided not only to our Customers, the financial community, investors, supervisors, suppliers and service providers, but also to the public. Our employees, who are the most important assets of our company, are encouraged to actively participate in social campaigns implemented by the Bank. We are engaged, among others, to protect and improve the quality of the natural environment and help those in need, providing support to foundations.

In 2018, the Bank implemented second editions of the following social campaigns:

"Our People Round The World" – as part of the campaign, initiated in 2017, employees of Euro Bank S.A., by covering distance, collected money for charity purposes.

The second edition of the campaign, carried out from 17 May to 30 June 2018, involved 638 employees of Euro Bank S.A. (i.e. 24% of all employed individuals). The goal was to cover the distance twice as long as the equator (80.1 thousand km) in six weeks, practicing any discipline related to covering distance. Again, the Bank adopted the rule 1km = PLN 1. The employees of Euro Bank S.A. jointly covered the distance of 113 949 km in 45 days. In accordance with the adopted principle, this translated into the Bank's transfer of PLN 100,000 to charity. 51% of this amount was transferred to the account of the "Mam Marzenie" Foundation and 49% to the account of the Homeless Animal Shelters in Wrocław (run by Towarzystwo Opieki nad Zwierzętami). Such a distribution of funds is the result of internal voting among the Bank's employees.

The campaign was awarded with a Bronze Clip (Brązowy Spinacz) in the CSR category, and films promoting it – with the Special Award of the Director of the FilmAT Festival.

As part of the campaign, the employees also got involved in volunteering to help realize the dreams of the pupils of the "Mam Marzenie" Foundation and help in the Homeless Animal Shelter in Wrocław.

"Our People Round The World 2" in figures:

- 113,949 km - distance covered by employees,
- 638 - number of employees who joined the competition in an external distance-measuring application,
- 178 km - average distance covered by one participant,
- 5,000,000 - number of calories burned,
- 100 000 zł - amount donated to charity.

#BezSmogu – a campaign initiated by Euro Bank S.A. in 2017. It is one of the key elements of the Bank's CSR activities. Its purpose is to spread knowledge about smog and increase the awareness of Poles about the dangers of breathing contaminated air. As part of the campaign, the Bank supports solutions for combating smog. In October 2018, the Bank launched the second edition of the campaign, as part of which it expanded the nationwide network with data on air quality in Poland by another 50 smog sensors installed in its branches. After two editions of the campaign, the network of sensors in Poland grew by a total of 100 smog sensors from Euro Bank S.A.. As a result, local communities have access to current information on the air pollution level. The current air quality can be tracked on at **https://airly.eu/map/pl/** and via Airly applications. Sensors measure the level of suspended particulate matter PM1, PM2.5 and PM10, air temperature, atmospheric pressure and air humidity, and are located, among others, in the following regions: Pomerania, Kujawy-Pomerania, Silesia , Lower Silesia , Greater Poland , Lubusz, Łódź , Masovia, Lubelskie, West Pomerania, Greater Poland, Opole. For the purchase of 50 smog sensors under the 2nd edition of the #BezSmogu campaign and their maintenance (for 14 months), the Bank allocated the amount of kPLN 81.5. In addition, the Bank has a special loan offer for people planning renovations to improve the energy efficiency of a house or flat, the so-called "Energy-saving loan" that is part of the #BezSmogu campaign. The product was created in cooperation with EBRD as part of the Polish Residential Energy Efficiency Financing Facility (PolREFF). The product supports investments in technologies that help save energy in homes and reduce bills while at the same time caring for the environment.

Since 2011, the Bank also encourages employees to use bicycles. As part of the eurobike initiative, the Bank provides a bicycle parking, showers, lockers, a bike control station at the Head Office, and promotes the initiative through competitions and various events during which, for example, one can mark their bicycle.

In 2018, the Bank carried out a campaign to support the Regional Center for Blood Donation and Blood Treatment in Wrocław – "Blood is good". It encouraged to donate blood, and the "blood bus" visited the cities of Lower Silesia. As part of the campaign, 3332 people donated their blood.

Values and ethical principles of the Bank's operations

The Bank implements and applies high standards of work. The Bank adopted a code of conduct defining the values and commitments, as well as guidelines for the conduct of persons and teams.
Through all our activities, we intend to build lasting and trust-based relationships with our stakeholders.
Euro Bank S.A. complies with the "SG Code of Conduct" adopted by the Societe Generale Group. As a Bank, we have values, principles and responsibilities that guide us in our daily activities. Taking care that every one of us acted honestly on a daily basis is of fundamental importance. Through ethical conduct, responsible decisions and compliance with our commitments, we act in the best interest of the Bank, the Group, employees, Customers and shareholders.
In addition, the Bank adopted the "Code of Banking Ethics" of the Polish Bank Association. This means accepting the commitment to apply the highest standards in business operations, so as by our actions to create an image of a public trust institution in the consciousness of Customers.
Both of these documents oblige the Bank to apply the highest standards, respect for human rights and care for the natural environment. By adopting these principles, the Bank maintains due diligence in its day-to-day operations, performance of tasks and achieving its objectives. Furthermore, in order to fully meet the requirements and act in accordance with the adopted values, the Bank has created a whole system of internal regulations, procedures and other documents that ensures due diligence in everyday work.

The Bank's sustainable development is based on the following values:

Team Spirit

In our rapidly changing world, Customers seek a bank that is a responsible, trustworthy and flexible partner. We can meet their expectations by working as a team, using the experience of each of us and basing on the diversity of our skills and knowledge.

Innovation

We want to continually improve the service offered to our Customers thanks to cooperation, so that we can adapt our solutions, practices and relationships to future applications, using in particular technological innovations. Acting in entrepreneurial spirit, we change our ways of work and promote the spirit of sharing, experimenting and unconventional thinking. We learn both on our successes and on our failures.

Responsibility

As bankers, we contribute to the sustainable social and economic development and environmental protection of the regions in which we operate. We want to help our Customers in the implementation of their ventures, while paying attention to all types of risks. Our responsibility and ethical standards mean that we meet our Customers' requirements quickly and protect the long-term interests of all our partners, while complying with all the rules governing our business. Our responsibility is also reflected in accepting the consequences of our actions and decisions, as well as expressing opinions in a transparent way. Responsibility also means for us to pay the same attention to the results achieved and to the ways of achieving them.

Commitment

Our commitment stems from the desire to attain long-term customer satisfaction and the pride from our Company. Every day we strive to make the world a better place, contributing both to the successes of our Customers and to the success of our own projects.
We encourage all employees to get involved and strive to achieve professional goals. Both inside the Bank and in relations with external entities, we maintain relationships based on trust and mutual respect.

The above values are the foundation of our leadership model. It is this model that defines the behaviors and abilities expected of each of us, regardless of whether we are directors, managers or regular employees. Each of us bears individual responsibility for accepting these attitudes and using these competences on a daily basis. All our activities must be carried out in accordance with the "Code of Conduct" as well as any internal instructions.

Respect for human rights and the environment

Compliance with human and socio-economic rights and respect for the natural environment is our primary principle. We want the Bank to develop with respect to fundamental human rights, social rights and respect for the natural environment. We act in accordance with the objectives of international initiatives that we have decided to support, and we also cooperate with their initiators. These include: UN Global Compact, Statement of Commitment by Financial Institutions on Sustainable Development (United Nations Environment Program), Equator Principles, Wolfsberg Anti-Money Laundering.

We develop our business activity, while respecting society and the natural environment. Together with our partners, we use energy and natural resources sparingly, and when we make decisions on financing and investments as well as the functioning of our enterprises, we take into account environmental and social factors.

Compliance with legal regulations, regulatory requirements and other standards

Wherever we are present, we comply with applicable laws, regulatory requirements and agreements, as well as with international obligations and agreements that we have ratified or supported. Together, we conduct our business by adhering to professional and ethical standards and principles. We ensure transparency and reliability of information provided to our Customers, the financial community, investors, supervisory authorities and the public as a whole. Our business, organizational structure and procedures are in line with the ethical principles and the principles set out by the Company Our internal control mechanisms give us confidence that these goals are achieved. We are actively involved in combating money laundering and financing of terrorism as well as corruption, cooperating with relevant authorities in this area. To achieve these goals, we have developed relevant procedures, among others, the Procedure on counteracting money laundering and terrorist financing in Euro Bank S.A. and the Anti-Corruption procedure in Euro Bank S.A.

Promoting diversity and respecting individual privacy

In accordance with the French Diversity Charter, adopted by the Societe Generale Group in 2004, and in accordance with Polish law, we promote diversity and refrain from practicing discrimination in any form with respect to employees and candidates for work. We comply with the rules and procedures regarding freedom of association and working conditions. We respect the privacy of people, regardless of whether they are Customers, partners or employees. We request and use only information useful for acting in the interests of our Customers and partners, improving the quality of services we provide, compliance with statutory obligations or managing our company. We adhere to the principle of political neutrality and refrain from supporting any political organizations or activities by donations or subsidies, even if allowed by local legislation. We respect the commitments of those of our employees who, as citizens, want to participate in public life.

Market integrity

Each of us must act responsibly and respect the rules of market integrity. The conduct of each of us is strictly in line with the standards and rules governing transactions on financial markets due to the fact that we refrain from any behavior or actions that could distort competition or change the realities of functioning or the level of transparency in relations with other market participants and supervisors.

We all abide by national and international market abuse rules, and we are constantly vigilant to protect market integrity. In particular, it is strictly forbidden to take actions such as: violation of regulations regarding the use of confidential information in trading in securities, disclosure of confidential information in an unlawful manner, dissemination of information constituting false or misleading signals for markets, as well as manipulation of prices.

Prevention of conflicts of interest

Each of us refrains from maintaining personal relationships with our Customers, partners and suppliers that could expose us to unreliable performance of our duties or put us in a situation of conflict of interest. We report any cases of potential conflicts of interest to our direct superiors and the Head of Compliance.
We avoid circumstances in which our own interests or interests of people in our nearest circle would be contrary to the interest of the Bank. In the event of any doubts about a transaction or situation, or whether we follow the "Code of Conduct" or any applicable instructions, we seek the advice of our direct supervisors and the Head of Compliance.

Each of us should avoid cooperation (or holding shares) with companies, suppliers and clients who provide competitive services without the prior written permission of the direct superior and the Head of Compliance. Where a peer employee can be considered as a representative of the Bank, he/she refrains from including the Bank or any of its entities into public activity or public duties performed outside the Bank.

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 Mariusz Kaczmarek	Vice-President of the Management Board Wojciech Humiński	