FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK OCHRONY ŚRODOWISKA GROUP

FOR THE YEAR ENDED DECEMBER 31ST 2020

Warsaw, April 2021

BOŚ BANK 30 lat

Contents

Full-year consolidated profit and loss account of BOŚ Group 5

Full-year consolidated statement of comprehensive income of the BOŚ Group 6

Full-year consolidated statement of financial position condition of the BOŚ Group 7

Full-year consolidated statement of changes in equity of the BOŚ Group 9

Full-year consolidated statement of cash flows of the BOŚ Group ..... Błąd! Nie zdefiniowano zakładki.

1. General information – Bank Ochrony Środowiska S.A. and the Bank Ochrony Środowiska S.A. Group 13

1.1. Bank Ochrony Środowiska S.A. 13

1.2. The Group – list of consolidated entities 14

1.3. Composition of the Management Board and Supervisory Board of the Bank 15

2. Statement of accounting policies 19

2.1. Basis of preparation and statement of compliance 19

2.2. Comparability with prior period data 20

Restated full-year consolidated statement of profit or loss of the Group 20

2.3. Standards, interpretations and amendments to standards first applied in 2020 21

2.4. Going concern 21

2.5. Consolidation 24

2.6. Segment reporting 25

2.7. Measurement of items denominated in foreign currencies 25

2.8. Interest income and expense 25

2.9. Fee and commission income and expense 26

2.10. Recognition of income and expense related to bancassurance 26

2.11. Hedge accounting 27

2.12. Financial assets and liabilities 28

2.13. Non-current assets held for sale 33

2.14. Intangible assets 33

2.15. Property, plant and equipment 34

2.16. Leases 35

2.17. Deferred income tax 36

2.18. Foreclosed assets 36

2.19. Prepayments, accruals and deferred income 37

2.20. Provisions for employee benefits 37

2.21. Provisions 37

2.22. Equity 37

2.23. Cash and cash equivalents 38

2.24. Brokerage business 38

2.25. New standards, interpretations and amendments thereto published and approved by the European Union but not yet effective and not yet applied by the Bank 38
2.26. New standards, interpretations and amendments thereto, which have been published and are not endorsed by the European Union 40
3. Corrections of prior period errors 41
4. Significant estimates and judgments 41
4.1. Financial assets 41
4.2. Fair value of financial instruments 43
4.3. Provision for retirement benefits 43
4.4. Scope of consolidation 43
4.5. Taxation 44
4.6. Provision for legal risk concerning the portfolio of mortgage loans denominated in foreign currencies 44
4.7. Provision for refund of loan costs in case of early repayment 45
5. Risk management 46
5.1. Credit risk 46
5.1.1. Methodology for recognising impairment of credit exposures 50
5.1.2. Amounts due from banks 53
5.1.3. Amounts due from clients 54
5.1.4. Debt securities 65
5.1.5. Concentration of exposures to industries and geographical markets, with assessment of the concentration risk 66
5.1.6. Concentration of exposure to particular entities and groups 69
5.1.7. Maximum exposure to credit risk 71
5.1.8. Forbearance practices 74
5.1.9. Effects of a possible regulatory solution of the issue of housing loans denominated in CHF and in other foreign currencies 76
5.2. Financial risk in the bank book and the trading book, and risk limits 76
5.2.1. Liquidity risk 77
5.2.2. Interest rate risk 83
5.2.3. Currency risks 89
5.2.4. Other market risks 94
5.3. Capital management 94
5.4. Operational risk 97
5.5. Non-compliance risk 98
5.6. Model risk 99
6. Net interest income 101
7. Net fee and commission income 103
8. Dividend income 104
9. Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients) 104

10. Gain (loss) on investment securities ... 104
11. Gain (loss) on hedge accounting ... 105
12. Gain (loss) on foreign exchange transactions ... 106
13. Other income ... 106
14. Other expenses ... 107
15. Net impairment losses ... 108
16. Administrative expenses ... 109
17. Income tax expense ... 110
18. Earnings (loss) per share ... 111
19. Cash and balances at central bank ... 111
20. Amounts due from other banks ... 111
21. Financial assets and liabilities held for trading ... 113
22. Investment securities ... 114
23. Amounts due from clients ... 119
24. Financial assets by maturity ... 125
25. Intangible assets ... 127
26. Property, plant and equipment ... 130
27. Right of use – leases ... 133
28. Other assets ... 135
29. Amounts due to central bank and other banks ... 135
30. Amounts due to clients ... 136
31. Subordinated liabilities ... 137
32. Provisions ... 138
33. Deferred income tax ... 142
34. Lease liabilities ... 144
35. Other liabilities ... 146
36. Contingent assets and liabilities ... 146
37. Brokerage business ... 149
38. Common equity ... 150
39. Revaluation reserve ... 152
40. Retained earnings ... 153
41. Hedge accounting ... 153
42. Share-based payments ... 155
43. Notes to the statement of cash flows ... 157
44. Description of derivative financial instruments and foreign exchange transactions ... 160

45. Fair value of financial assets and liabilities 167
46. Allocation of financial instruments measured at fair value based on the fair value measurement method 169
47. Segment reporting 173
48. Related-party transactions 179
49. Disposal, liquidation and merger of companies 182
50. Dividends paid (aggregate or per share) separately for ordinary shares and other shares 182
51. Events after the reporting date 182

BOŚ BANK 30 lat

Full-year consolidated profit and loss account

Continuing operations	Note	for the year ended December 31st 2020	for the year ended December 31st 2019
Interest income and similar income, including:		518,582	627,590
financial assets measured at amortised cost		447,816	528,324
assets measured at fair value through other comprehensive income		67,698	95,718
financial assets measured at fair value through profit or loss		3,068	3,548
Interest expense and similar charges, including:		- 147,602	- 207,603
financial liabilities measured at amortised cost		- 139,902	- 198,831
financial liabilities measured at fair value through profit or loss		- 7,700	- 8,772
Net interest income	**6**	**370,980**	**419,987**
Fee and commission income		171,918	132,065
Fee and commission expense		- 37,328	- 33,692
Net fee and commission income	**7**	**134,590**	**98,373**
Dividend income	8	6,262	6,434
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	9	74,461	44,957
Gain (loss) on investment securities	10	4,239	582
Gain (loss) on hedge accounting	11	- 2,038	- 42
Gain (loss) on foreign exchange transactions	12	26,396	16,503
Other income	13	20,623	27,550
Other expenses	14	- 28,091	- 17,045
Legal risk costs of mortgage loans denominated in foreign currencies	32.36	- 353,021	- 21,221
Net impairment losses	15	- 163,793	- 104,536
Administrative expenses	16	- 376,361	- 361,354
Profit (loss) before tax		**- 285,753**	**110,188**
Income tax expense	17	- 21,181	- 38,194
Net profit (loss)		**- 306,934**	**71,994**
of which attributable to owners of parent		- 306,934	71,994
Earnings (loss) per share attributable to owners of parent during period (PLN)	**18**		
basic		-3.30	0.77
diluted		-3.30	0.77

There were no discontinued operations in 2020 and 2019.

The notes presented on the following are an integral part of these financial statements.

Full-year consolidated statement of comprehensive income of the BOŚ Group

Continuing operations	for the year ended	
	December 31st 2020	December 31st 2019
Net profit (loss)	**- 306,934**	**71,994**
Items that may be reclassified profit or loss:	**20,403**	**- 9,599**
Fair value of financial assets measured at fair value through other comprehensive income, gross	25,189	- 11,850
Deferred tax	- 4,786	2,251
Items that will not be reclassified to profit or loss:	**- 229**	**- 96**
Fair value of equity instruments carried at fair value through other comprehensive income, gross	- 40	- 16
Deferred tax	8	3
Increase (decrease) in employee benefit obligations	- 243	- 103
Deferred tax	46	20
Total comprehensive income:	**- 286,760**	**62,299**
of which attributable to owners of parent	- 286,760	62,299

The notes presented on the following are an integral part of these financial statements.

Full-year consolidated statement of financial position condition

Assets	Note	December 31st 2020	December 31st 2019
Cash and balances at central bank	19	266,552	297,866
Amounts due from banks	20	155,616	165,733
Financial assets held for trading, including:	21	113,134	140,344
equity securities		14,032	20,111
debt securities		805	44,534
derivative instruments		98,297	75,699
Investment securities:	22	7,371,414	5,302,078
equity securities measured at fair value through other comprehensive income		85,480	85,510
debt securities measured at fair value through other comprehensive income		5,597,061	3,839,184
debt securities measured at amortised cost		1,535,239	1,377,384
debt securities measured at fair value through profit or loss		153,634	-
Amounts due from clients, including:	23	11,887,297	12,003,794
measured at amortised cost		11,861,783	11,965,509
measured at fair value through profit or loss		25,514	38,285
Intangible assets	25	110,902	117,062
Property, plant and equipment	26	84,651	77,743
Right of use – leases	27	67,796	79,738
Tax assets:		129,136	109,418
current		8,433	390
deferred	33	120,703	109,028
Other assets	28	319,331	193,221
Total assets		**20,505,829**	**18,486,997**

The notes presented on the following are an integral part of these financial statements.

Liabilities	Note	December 31st 2020	December 31st 2019
Amounts due to central bank and other banks	29	732,743	595,667
Financial liabilities held for trading, including:	21	103,316	50,926
equity securities		575	-
derivative instruments		102,741	50,926
Derivative hedging instruments	41	24,497	16,869
Amounts due to clients	30	16,560,715	14,914,981
Subordinated liabilities	31	368,996	370,731
Provisions	32	418,534	57,705
Tax liabilities:		1,103	9,795
current		856	8,410
deferred	33	247	1,385
Lease liabilities	34	71,229	83,349
Other liabilities	35	311,526	187,044
Total liabilities		**18,592,659**	**16,287,067**

Equity	Note	December 31st 2020	December 31st 2019
Equity attributable to owners of parent			
Common equity:	38	1,461,036	1,461,036
Share capital		929,477	929,477
Treasury shares		-1,292	-1,292
Share premium		532,851	532,851
Revaluation reserve	39	67,869	47,695
Retained earnings	40	384,265	691,199
Total equity		**1,913,170**	**2,199,930**
Total equity and liabilities		**20,505,829**	**18,486,997**

The notes presented on the following pages are an integral part of these financial statements.

Full-year consolidated statement of changes in equity

Item	Equity attributable to owners of the Bank								Total equity
	Common equity			Revaluation reserve	Retained earnings				
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	Other capital reserves	General risk fund	Undistributed profit (loss)	
As at January 1st 2020	**929,477**	**- 1,292**	**532,851**	**47,695**	**694,403**	**23,605**	**48,302**	**- 75,111**	**2,199,930**
Net profit (loss)	-	-	-	-	-	-	-	- 306,934	- 306,934
Other comprehensive income	-	-	-	20,174	-	-	-	-	20,174
Total comprehensive income	**-**	**-**	**-**	**20,174**	**-**	**-**	**-**	**- 306,934**	**- 286,760**
Profit distribution, including:	**-**	**-**	**-**	**-**	**81,682**	**-**	**-**	**- 81,682**	**-**
Transfer of net profit to reserves	-	-	-	-	81,682	-	-	- 81,682	-
As at December 31st 2020	**929,477**	**- 1,292**	**532,851**	**67,869**	**776,085**	**23,605**	**48,302**	**- 463,727**	**1,913,170**

Item	Equity attributable to owners of the Bank								Total equity
	Common equity			Revaluation reserve	Retained earnings				
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	Other capital reserves	General risk fund	Undistributed profit (loss)	
As at January 1st 2019	**929,477**	**- 1,292**	**532,851**	**57,390**	**624,393**	**23,605**	**48,302**	**- 77,160**	**2,137,566**
Net profit (loss)	-	-	-	-	-	-	-	71,994	71,994
Other comprehensive income	-	-	-	- 9,695	-	-	-	-	- 9,695
Total comprehensive income	**-**	**-**	**-**	**- 9,695**	**-**	**-**	**-**	**71,994**	**62,299**
Gain (loss) on disposal of securities reclassified in accordance with IFRS 9	-	-	-	-	-	-	-	65	65
Profit distribution, including:	**-**	**-**	**-**	**-**	**70,010**	**-**	**-**	**- 70,010**	**-**
Transfer of net profit to reserves	-	-	-	-	70,010	-	-	- 70,010	-
As at December 31st 2019	**929,477**	**- 1,292**	**532,851**	**47,695**	**694,403**	**23,605**	**48,302**	**- 75,111**	**2,199,930**

There were no non-controlling interests in 2019 and 2020.

The notes presented on the following are an integral part of these financial statements.

BOŚ BANK 30 lat

Full-year consolidated statement of cash flows of the BOŚ Group

Indirect method	for the year ended	
	December 31st	December 31st 2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Profit (loss) before tax	**-285,753**	**110,188**
Total adjustments:	**1,252,781**	**- 88,135**
Amortisation/depreciation	52,905	55,658
Interest income on investing activities	- 54,758	- 55,577
Gain (loss) on investing activities	30	- 93
Interest income on financing activities	16,384	22,588
Dividends received:	- 6,262	- 6,434
on securities held for trading	57	157
on investment securities	6,205	6,277
Change in:		
amounts due from banks	- 26,769	- 6,400
assets on securities held for trading	49,808	- 52,611
assets and liabilities from measurement of derivative and hedging financial instruments	36,845	- 4,811
investment securities	- 1,026,215	44,540
amounts due from clients	116,497	- 194,267
other assets and income tax	- 132,979	6,509
amounts due to central bank and other banks	137,076	23,883
amounts due to clients	1,645,734	115,872
liabilities arising from securities held for trading	575	-
provisions	360,586	21,829
other liabilities and income tax	132,252	- 24,338
Income tax paid	- 55,190	- 40,917
Net cash flows from (used in) operating activities	**967,028**	**22,053**

BOŚ BANK 30 lat

CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Inflows	**57,653**	**54,020**
Cash receipts from sale of property, plant, and equipment	164	559
Interest income on securities measured at amortised cost	57,489	53,461
Outflows	**- 198,925**	**- 38,638**
Acquisition of securities measured at amortised cost	- 160,586	-
Payments for acquisition of intangible assets	- 18,241	- 22,687
Payments for acquisition of property, plant and equipment	- 20,098	- 15,951
Net cash flows from (used in) investing activities	**- 141,272**	**15,382**
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Inflows	**-**	**-**
Outflows	**- 33,839**	**- 83,001**
Redemption of bonds issued by the Group	-	- 46,000
Interest paid on bonds issued by the Group, including:	- 14,440	- 19,184
subordinated bonds	- 14,440	- 17,627
IFRS 16 Lease instalments	- 19,399	- 17,817
Net cash flows from (used in) financing activities	**- 33,839**	**- 83,001**
TOTAL NET CASH FLOWS	**791,917**	**- 45,566**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,687,915**	**1,733,481**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,479,832**	**1,687,915**
Restricted cash and cash equivalents	31,408	195,497

The notes presented on the following pages form an integral part of these financial statements.

.

Notes to the full-year consolidated financial statements

1. General information – Bank Ochrony Środowiska S.A. and the Bank Ochrony Środowiska S.A. Group

1.1. Bank Ochrony Środowiska S.A.

Name of the reporting entity or other identification data	Bank Ochrony Środowiska S.A. Group
Explanation of changes to the name of the reporting entity or other identification data since the end of the previous reporting period	-
Seat	ul. Żelazna 32, 00-832 Warsaw
Legal form	Joint Stock Company (*spółka akcyjna*)
Country of registration	Poland
Address of registered office	00-832 Warsaw, ul. Żelazna 32
Principal place of business	Poland
Principal business activity	The Bank's primary objective is to effectively manage the shareholders' equity and funds entrusted by its clients, ensuring the profitability of its business and the security of the funds entrusted. The Bank's business consists in banking activities, including collection of cash, provision of loans, effecting cash settlements, provision of other banking services, and provision of financial consulting and advisory services.
Name of the parent	Bank Ochrony Środowiska S.A.
Name of ultimate parent of the group	Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej

Bank Ochrony Środowiska S.A. (the "Bank", "BOŚ S.A.", the "Company"), with its registered office at ul. Żelazna 32, 00-832 Warsaw, was established by Decision No. 42 of the Governor of the National Bank of Poland No. 42 of September 15th 1990, and a notarial deed of incorporation of September 28th 1990.

The Bank is entered in the National Court Register of the District Court for the Capital City of Warsaw, 13th Commercial Division, under No. KRS 0000015525, and has Industry Identification Number (REGON) 006239498.

According to the Polish Classification of Business Activities (PKD), the Bank's activities are classified as PKD 6419Z.

The Bank was established for an indefinite period.

The Bank's mission is: the Polish bank combining business and environmental protection for the benefit of clients.

The Bank pursues its mission mainly by:

- providing banking services to retail and institutional clients, in particular those implementing environmentally friendly projects or operating in the environmental protection and water management sectors, and to people who value eco-friendly lifestyles,
- effective participation in distribution of funds for environmental protection projects and sustainable development in Poland.

Since January 24th 1997 the Bank shares have been traded on the Warsaw Stock Exchange and listed in the finance/banking segment of the market.

These full-year consolidated financial statements of the Group were authorised by the Management Board of the parent for issue on the Warsaw Stock Exchange on April 29th 2021.

1.2. The Group – list of consolidated entities

Consolidated subsidiaries of the Group and the consolidation method in 2020:

No.	Subordinated entities	Seat	% equity interest as at	% voting interest as at	Consolidation method
Direct subsidiaries					
1.	Dom Maklerski BOŚ S.A.	Warszawa	100%	100%	Full consolidation
2.	BOŚ Leasing - EKO Profit S.A.	Warszawa	100%	100%	Full consolidation
Indirect subsidiary (subsidiary of BOŚ Leasing - Eko Profit S.A.)					
1.	MS Wind sp. z o. o.	Warszawa	100%	100%	Full consolidation

Dom Maklerski BOŚ S.A. – a direct subsidiary operating on the capital market, provides mainly brokerage services.

BOŚ Leasing - EKO Profit S.A. – a direct subsidiary engaged in lease activities involving financing of environmental protection projects, also provider of financial and advisory services complementary to the Bank's service offering.

MS Wind Sp. z o.o. – an indirect subsidiary (a direct subsidiary of BOŚ Leasing - EKO Profit S.A.) engaged in execution of a wind farm project.

Additional information on the Group companies as at December 31st 2020:

Subordinated entities	Income*\	Number of employees		Profit or loss before tax	Income tax	Financial support received
		full-time positions	persons			
Direct subsidiaries						
Dom Maklerski Banku Ochrony Środowiska S.A.	124,861	232	236	40,387	9,522	-
BOŚ Leasing - EKO Profit S.A.	6,830	16	16	943	203	-
Indirect subsidiary (subsidiary of BOŚ Leasing - Eko Profit S.A.)						
MS Wind sp. z o. o.	4,656	0.5	2	1,086	217	-

*\ Income defined as net interest income, net commission income, net result on financial instruments, other income, in PLN thousand.

1.3. Composition of the Management Board and Supervisory Board of the Bank

Management Board

As at December 31st 2020, the composition of the Bank's Management Board was as follows:
- Wojciech Hann – Vice President of the Management Board, responsible for activities of the Management Board
- Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board
- Jerzy Zań – Vice President of the Management Board.
- Marzena Koczut – Member of the Supervisory Board delegated to temporarily perform the duties of Member of the Management Board.

As at December 31st 2019, the composition of the Bank's Management Board was as follows:
- Bogusław Białowąs, President of the Management Board
- Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board
- Jerzy Zań – Vice President of the Management Board.

During the year, the following changes took place in the composition of the Management Board:
1. On June 17th 2020, i.e., the date of the Annual General Meeting of the Bank approving the financial statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2019, the mandates of all members of the Bank's Management Board expired.
2. On June 18th 2020, i.e., on the day following the date of approval by the Annual General Meeting of the Bank of the financial statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2019, having carried out a qualification procedure, the Supervisory Board appointed the Management Board for a new term of office with the following composition:
   - Arkadiusz Garbarczyk – as Vice President of the Management Board, First Deputy President of the Management Board
   - Jerzy Zań – as Vice President of the Management Board.

   Also, since Mr Bogusław Białowąs declared that he would not stand for election to the Management Board for a new term of office and that President of the Management Board had not been elected in the course of the qualification procedure, the Supervisory Board:
   - delegated Emil Ślązak, Member of the Supervisory Board, to temporarily perform the duties of President of the Management Board, for a period not longer than until September 16th 2020;
   - at its meeting held on June 24th 2020 – passed a resolution to initiate a qualification procedure for the position of President of the Management Board;

3. on September 15th 2020 – made a decision to delegate again Emil Ślązak to temporarily perform the duties of President of the Management Board from September 17th 2020, for a period not longer than until December 16th 2020;
4. on November 6th 2020, as a result of the qualification procedure – appointed Wojciech Hann as Vice President of the Management Board effective as of November 9th 2020 to manage the activities of the Management Board for a definite period, i.e., until the effective date of the Supervisory Board's resolution on the appointment of President of the Management Board.
   Upon the appointment of Wojciech Hann as Vice President of the Management Board, the delegation of Emil Ślązak, Member of the Supervisory Board, to perform the duties of President of the Management Board ended;
5. on December 16th 2020 – made a decision to initiate a qualification procedure for the position of Member of the Management Board, and passed a resolution to delegate Marzena Koczut, Member of the Supervisory Board, to temporarily perform the duties of Member of the Management Board for a period from December 21st 2020 until the date of completion of the qualification procedure, but not longer than until March 21st 2021.

As at the date of these financial statements, the composition of the Management Board was as follows:

- Wojciech Hann – President of the Management Board
- Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board
- Robert Kasprzak – Vice President of the Management Board
- Marzena Koczut – Vice President of the Management Board
- Jerzy Zań – Vice President of the Management Board.

After December 31st 2020, the following changes occurred in the composition of the Management Board:

1. On February 10th 2021, following a qualification procedure for the position of Member of the Management Board, the Supervisory Board appointed Marzena Koczut as Vice President of the Management Board, with effect as of February 10th 2021, for a joint three-year term of office which commenced on June 18th 2020, i.e., on the day following the date of approval by the Annual General Meeting of the financial statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2019.
2. On February 10th 2021, following a qualification procedure for the position of Member of the Management Board, the Supervisory Board appointed Robert Kasprzak as Vice President of the Management Board, with effect as of February 15th 2021, for a joint three-year term of office which commenced on June 18th 2020, i.e., on the day following the date of approval by the Annual General Meeting of the financial statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2019,
3. On March 3rd 2021, in connection with the decision of the Polish Financial Supervision Authority dated March 3rd 2021, the Supervisory Board appointed Wojciech Józef Hann as President of the Management Board for the joint three-year term of office, which commenced on June 18th 2020, i.e., on the day following the date of approval by the Annual General Meeting of the financial statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2019.

Supervisory Board

As at December 31st 2020, the composition of the Supervisory Board was as follows:
- Wojciech Wardacki – Chairman of the Supervisory Board
- Mr Ireneusz Purgacz – Deputy Chairman of the Supervisory Board
- Mr Paweł Sałek – Secretary of the Supervisory Board

Members of the Supervisory Board
- Leszek Banaszak
- Robert Czarnecki
- Janina Goss
- Marcin Jastrzębski
- Marzena Koczut (from December 21st 2020 delegated to temporarily perform the duties of Member of the Management Board member – for a period not longer than until March 21st 2021)
- Emil Ślązak
- Piotr Wróbel.

As at December 31st 2019, the composition of the of the Supervisory Board was as follows:
- Wojciech Wardacki – Chairman of the Supervisory Board
- Katarzyna Lewandowska – Deputy Chair of the Supervisory Board
- Andrzej Matysiak – Secretary

Members of the Supervisory Board
- Iwona Duda
- Janina Goss
- Ireneusz Purgacz
- Radosław Rasała
- Piotr Sadownik
- Paweł Sałek
- Emil Ślązak

In 2020, the following changes occurred in the composition of the Supervisory Board:
1. Iwona Duda tendered her resignation from the Supervisory Board with effect as of May 12th 2020;
2. Katarzyna Lewandowska tendered her resignation from the Supervisory Board with effect as of June 15th 2020,
3. on June 16th 2020 and then on September 15th 2020 the Supervisory Board delegated Emil Ślązak, Member of the Supervisory Board, to temporarily perform the duties of President of the Management Board – for the period from June 18th 2020, not longer than until September 16th 2020, and then for the period from September 17th 2020, not longer than until December 16th 2020. The period of the delegation of Emil Ślązak, ended on November 9th 2020, i.e., upon appointment of Wojciech Hann as Vice President of the Management Board to manage the activities of the Management Board;
4. on August 5th 2020:
   - the Supervisory Board appointed Ireneusz Purgacz as its Deputy Chairman;
   - The Extraordinary General Meeting (convened for August 5th 2020 and subsequently continued after adjournment on August 17th and August 25th 2020):
     - removed Radosław Rasała from the Supervisory Board, with effect as of August 5th 2020;
     - appointed Przemysław Bednarski to the Supervisory Board, with effect as of August 5th 2020;
     - appointed Piotr Wróbel to the Supervisory Board, with effect as of August 5th 2020;
     - appointed Marcin Jastrzębski to the Supervisory Board, with effect as of August 25th 2020;
5. Przemysław Bednarski tendered his resignation with effect from the Supervisory Board, with effect as of October 17th 2020;
6. The Extraordinary General Meeting of BOŚ S.A. convened for October 14th 2020 and continued after adjournment on October 19th 2020:
   - removed Andrzej Matysiak from the Supervisory Board, with effect as of from October 19th 2020,
   - appointed the following persons to the Supervisory Board, with effect as of October 19th 2020:

  - Leszek Banaszak,
  - Robert Czarnecki,
  - Marzena Koczut;

7. on October 28th 2020, the Supervisory Board appointed Paweł Sałka as Secretary of the Supervisory Board;

8. on November 5th 2020, Piotr Sadownik tendered his resignation from the Supervisory Board with effect as of the date of conclusion of the Supervisory Board meeting held on November 6th 2020;

9. on December 16th 2020 – made a decision to delegate Marzena Koczut, Member of the Supervisory Board, to temporarily perform the duties of Member of the Management Board for a period from December 21st 2020 until the date of completion of the qualification procedure, but not longer than until March 21st 2021.

As at the date of these financial statements, the composition of the Supervisory Board was as follows:

- Wojciech Wardacki – Chairman of the Supervisory Board
- Mr Ireneusz Purgacz – Deputy Chairman of the Supervisory Board
- Mr Paweł Sałek – Secretary of the Supervisory Board

Members of the Supervisory Board

- Leszek Banaszak
- Robert Czarnecki
- Janina Goss
- Marcin Jastrzębski
- Emil Ślązak
- Piotr Wróbel.

After December 31st 2020, the following changes occurred in the composition of the of the Supervisory Board:

1. On February 10th 2021, Marzena Koczut, following her appointment as Vice President of the Management Board, tendered her resignation from the Supervisory Board.

2. Statement of accounting policies

2.1. Basis of preparation and statement of compliance

The full-year consolidated financial statements of the Group include:

- Consolidated statement of profit or loss for the 12 months ended December 31st 2020 and comparative data for the 12 months ended December 31st 2019,
- consolidated statement of comprehensive income for the 12 months ended December 31st 2020 and comparative data for the 12 months ended December 31st 2019,
- consolidated statement of financial position as at December 31st 2020 and comparative data as at December 31st 2019,
- consolidated statement of changes in equity for the 12 months ended December 31st 2020 and comparative data for the 12 months ended December 31st 2019,
- consolidated statement of cash flows for the 12 months ended December 31st 2020 and comparative figures for the 12 months ended December 31st 2019,
- notes to the financial statements.

These full-year consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), effective as at the reporting date, i.e., December 31st 2020, using the same accounting policies for each period, and on a historical cost basis, except for the following items measured at fair value:

Recognition of changes in fair value through:	
Financial instruments held for trading	profit or loss
Fair value hedging derivatives	profit or loss
Amounts due from clients whose cash flows fail to meet the SPPI (solely payment of principal and interest) test	profit or loss
Investment debt securities held within a business model whose objective is achieved by collecting contractual cash flows or selling financial assets	other comprehensive income
Equity investment securities	other comprehensive income

IFRSs comprise the standards and interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

Dom Maklerski BOŚ S.A., BOŚ Leasing - EKO Profit S.A. and MS Wind Sp. z o.o. prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

These full-year consolidated financial statements have been prepared in the Polish złoty (PLN), rounded to PLN thousand (PLN' 000).

2.2. Comparability with prior period data

In the 2020 financial statements, the presentation of costs related to legal risks associated with foreign currency loans has been changed by extracting them to a separate line in the statement of profit or loss, due to the increase in the amount of this item and its significance in the statements.

Restated full-year consolidated statement of profit or loss of the Group

Continuing operations	Data in the issued financial statements for the 12 months ended December 31st 2019	Adjustment due to change in presentation	Adjusted data in these financial statements for the 12 months ended December 31st 2019
Interest income and similar income, including:	627,590	-	627,590
financial assets measured at amortised cost	528,324	-	528,324
assets measured at fair value through other comprehensive income	95,718	-	95,718
financial assets mandatorily measured at fair value through profit or loss	3,548	-	3,548
Interest expense and similar charges, including:	- 207,603	-	- 207,603
financial liabilities measured at amortised cost	- 198,831	-	- 198,831
financial liabilities mandatorily measured at fair value through profit or loss	- 8,772	-	- 8,772
Net interest income	**419,987**	**-**	**419,987**
Fee and commission income	132,065	-	132,065
Fee and commission expense	- 33,692	-	- 33,692
Net fee and commission income	**98,373**	**-**	**98,373**
Dividend income	6,434	-	6,434
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	44,957	-	44,957
Gain (loss) on investment securities	582	-	582
Gain (loss) on hedge accounting	- 42	-	- 42
Gain (loss) on foreign exchange transactions	16,503	-	16,503
Other income	27,550	-	27,550
Other expenses	- 38,266	21,221	- 17,045
Legal risk costs of mortgage loans denominated in foreign	-	- 21,221	- 21,221
Net impairment losses	- 104,536	-	- 104,536
Administrative expenses	- 361,354	-	- 361,354
Profit before tax	**110,188**	**-**	**110,188**
Income tax expense	- 38,194		- 38,194
Net profit	**71,994**	**-**	**71,994**

2.3. Standards, interpretations and amendments to standards first applied in 2020

IFRS	Amendment	Applicable from	Impact on the Group
Conceptual Framework for Financial Reporting	The Conceptual Framework was published by the IASB in March 2018. It provides a comprehensive overview of financial reporting matters, rules for setting standards and guidelines for entities developing consistent accounting policies and facilitates understanding and interpretation of standards. The Conceptual Framework includes new concepts, updated definitions and criteria for recognition of assets and liabilities, as well as explanation of material concepts. It consists of eight sections. The conceptual framework was published together with the rationale for the changes. The Board also issued a separate document, *Amendments to References to the Conceptual Framework in IFRS Standards*, which sets out amendments to standards to update references to the Conceptual Framework. In most cases, the references in the standards were updated to reflect the references to the Conceptual Framework.	January 1st 2020 or after that date	The amendment had no material effect on the financial statements.
Amendments to IFRS 3 *Business Combinations*	The amendments to IFRS 3 include a change in the definition of 'business'. Under the amended standard, the scope of the definition is narrower and will probably increase the proportion of acquisitions classified as asset acquisition.	January 1st 2020	The amendment had no material effect on the financial statements.
IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	The IASB published a new definition of "materiality". Amendments to IAS 1 and IAS 8 clarify the definition of materiality and increase consistency between the standards.	January 1st 2020	The amendments had no material effect on the financial statements.
Amendments to IFRS 9 *Financial instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*; and IFRS 7 *Financial Instruments: Disclosures.*	Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7) regarding the consequences for the financial reporting of the interest rate benchmark reform in the period before the replacement of an existing interest rate benchmark with an alternative reference rate. The amendments provide for temporary and narrow derogations from the hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*, which allow companies to continue to comply with the existing requirements provided that the existing benchmark interest rates do not change following the interbank deposit rate reform.	January 1st 2020	The amendment had no material effect on the financial statements.

2.4. Going concern

Due to the balance-sheet loss for 2015 and in connection with the requirements set out in Art. 142 of the Banking Law, on March 30th 2016 the Bank submitted to the Polish Financial Supervision Authority a Recovery Programme

approved by the Bank's Supervisory Board (Recovery Programme). The Authority approved the programme and presented its comments and other information in a letter sent to the Bank on December 14th 2016.

The Bank increased its share capital by PLN 400m in 2016 and by PLN 300.7m in 2018.

On February 23rd 2018, the Bank submitted an updated version of the Recovery Programme to the PFSA. The review of the programme was required as the Bank had failed to meet some of the minimum conditions set out in the document approved by the PFSA in December 2016, and therefore re-examination of the original assumptions concerning the business model and risk costs was necessary. The revisions mainly involved modifications in the Bank's business model, with a shift towards the core area of the Bank's mission, verification of allowances for credit losses to reflect the revised business model impairment losses, and update of the capital adequacy aspects of the programme.

The Polish Financial Supervision Authority approved the updated version of the Recovery Programme on May 24th 2018.

The period for implementation of the restructuring activities outlined in the programme was set for 2018-2021. The Bank prepared a Framework Strategy for BOŚ S.A., consistent with the Recovery Programme in terms of the assumptions, directions and objectives.

The key assumptions of the Strategy were communicated to the market in the form of a current report on April 20th 2016, followed by a current report on modification of the key assumption was published on March 22nd 2018, and a current report on the Strategy update published on November 28th 2018. Favourable market and macroeconomic conditions as well as the modification of the Bank's business model were the starting points for updating the Strategy.

The update of the Framework Strategy sets out the following objectives:

1. evolution of the business model towards focus on institutional banking, in particular for small and medium-sized enterprises, with a simultaneous profiling of the offer for retail clients – within the Bank's core area of interest, that is environmental protection, and in the context of opportunities offered by the market for financing environmental projects,
2. transition from the stabilisation and recovery in 2016-2018 to the business development stage, involving implementation of the new business model and the Bank's new role in the government's environmental protection policies,
3. taking advantage of the favourable conditions for growth in ecological projects through financing environmentally-friendly investments and efficient distribution of resources allocated to environmental protection and sustainable development.

On July 17th 2020, the Bank received a decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated *ex officio* by the PFSA on May 12th 2020, whereby the Bank was ordered to prepare a group recovery plan for Bank Ochrony Środowiska S.A., pursuant to Article 141n.1 of the Act of August 29th 1997. On July 20th 2020, the Bank received the second decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated ex officio by the PFSA on May 12th 2020 to limit the scope of the group recovery plan to entities of the BOŚ Group.

The Authority concluded that the most appropriate solution was to commit BOŚ S.A. to prepare a group recovery plan under Chapter XII of the amended Banking Law. Its approval by the Authority also means that the Bank is no longer bound by the obligations stemming from the previous rehabilitation measures, i.e., the recovery programme implemented pursuant to Article 142(1) of the Banking Law in the wording effective until October 08th 2016, in accordance with Article 381(4) of the Act of June 10th 2016 on the Bank Guarantee Fund, deposit guarantee scheme and forced restructuring.

The Bank prepared the Group Recovery Plan and submitted it to the FSA in October 2020. In a letter dated January 21st 2021, in connection with the administrative proceedings to approve the Group Recovery Plan, the Polish

Financial Supervision Authority instructed the Bank to supplement and amend the Group Recovery Plan, with the audited financial data as at December 31st 2020 to be used as the point of reference.

During the COVID-19 pandemic, the Group maintained full operational capacity in 2020. The Bank and the Group companies maintained capital safety ratios significantly above the minimum regulatory levels and did not see any a significant impact of the pandemic on liquidity and capital adequacy. The decisions of the Monetary Policy Council (of March 17th, April 8th and May 28th 2020) to reduce interest rates by a total of 140 basis points had a negative effect on the Group's interest income in 2020, which fell by PLN 49m year on year.

The Bank's financial results was also adversely affected by the recognition of a provision for risks related to mortgage loans denominated in or indexed to foreign currencies. As a result, the Group recorded a balance sheet loss of PLN -306,934 thousand. However, despite the loss, the Group maintains the capital adequacy ratios Tier 1 and TCR at 13.09% and 14.86%, respectively. Both ratios remained above the levels recommended by the Polish Financial Supervision Authority (for details, see Note 5.3). The Group's financial liquidity is adequate and exceeds the supervisory requirements (for details, see Note 5.2.1).

Taking into consideration the factors described above, as at the date of authorisation of these financial statements for issue, there are no circumstances that would indicate a threat to the Bank's ability to continue as a going concern for at least 12 months after the reporting date as a result of deliberate or compulsory discontinuation or limitation of its current operations.

2.5. Consolidation

These consolidated financial statements include financial data of Bank Ochrony Środowiska S.A. and financial data of the subsidiaries, prepared for the year ended December 31st 2020. The financial statements of the subsidiaries have been prepared on the basis of uniform accounting policies applied to transactions and economic events of similar nature and for the same reporting period as the financial statements of the parent.

All significant balances and transactions between the Group companies, including unrealized gains arising from transactions within the BOŚ Group, have been fully eliminated. Unrealized losses are eliminated unless they present evidence of impairment.

Subsidiaries are consolidated from the date when the Group obtains control of them and cease to be consolidated when the control is lost. Control by the parent is exercised over an entity when the parent:

1. exercises power over the investee,
2. is exposed to or has rights to variable returns from its exposure to the entity,
3. has the ability to use its power over the investee to affect the amount of its returns.

The Group reviews its control of other entities if there is an indication of change in one or more of the conditions of control referred to above.

If the Group holds less than a majority of voting rights in an investee, but the voting rights it holds are sufficient to enable it to unilaterally direct the material activities of that investee, it means that it exercises power over that investee. When assessing whether the voting rights in an entity are sufficient as a source of power, the Group considers all relevant circumstances, including:

1. the size of its holding of voting rights relative to the size and dispersion of other voting rights holdings;
2. the potential voting rights held by the Company, other shareholders or other parties,
3. the rights based on other contractual arrangements, as well as
4. additional circumstances, which may prove that the Company either does or does not have the possibility of directing significant activities at the time of decision making, including the voting patterns observed during the previous meetings of shareholders.

As at December 31st 2020, there were no entities in which the Bank holds fewer than a majority of the voting rights and also exercises control.

Changes in share ownership by the parent which do not result in loss of control over the subsidiary are recognized as equity transactions. In such cases, the Group adjusts the carrying amount of controlling and non- controlling interests in order to reflect the changes in the relative share of the Group in the subsidiary. Any differences between the amount of the adjustment to non-controlling interests and the fair value of the consideration paid or received are charged to equity and attributed to owners of the parent.

If the Group loses control of a subsidiary, a gain or loss is recognised in the statement of profit or loss, calculated as the difference between the aggregate amount of consideration received and the fair value of the retained interest, and the original carrying amount of the assets (including goodwill) and liabilities of the subsidiary and non-controlling interests. All amounts related to that subsidiary, initially recognised in other comprehensive income, are accounted for as if the BOŚ Group directly disposed of the corresponding assets or liabilities of the subsidiary (i.e., they are transferred to profit or loss or to another component of equity provisions, as prescribed by provisions of the relevant IFRS). The fair value of investment held in a former subsidiary at the date when control is lost is treated as the fair value at initial recognition in accordance with IFRS 9.

2.6. Segment reporting

An operating segment is a component of the Bank:
1. that engages in business activities from which it may earn revenues and incur expenses,
2. whose operating results are regularly reviewed by the Bank's chief operating decision maker to make operational decisions and decisions about resources to be allocated to the segment,
3. for which discreet financial information is available.

Segment reporting is prepared on the same basis as internal reporting.

In accordance with IFRS 8, the Group identified the following operating segments:
1. institutional clients,
2. retail clients,
3. treasury and investments,
4. brokerage business,
5. other (not allocated to the segments).

The Group's activities are not geographically diversified. For detailed information on segment reporting by the Group, see Note 47.

2.7. Measurement of items denominated in foreign currencies

Functional currency

Items of the financial statements are measured in the functional currency, which is the currency of the primary economic environment in which the Group operates.
The Polish złoty is the functional currency of the Group.

Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate effective on the transaction date, and the result of such translation is recognised in profit or loss.

Monetary assets and liabilities denominated in/indexed to foreign currencies are translated at the exchange rate effective at the reporting date.

Non-monetary assets and liabilities measured at fair value are translated at the exchange rate effective as at the measurement date.

Non-monetary assets and liabilities measured at cost are translated at the exchange rate effective on the date these items arise.

2.8. Interest income and expense

All interest income on financial instruments measured at amortised cost using the effective interest rate method and interest income on interest-bearing financial assets measured at fair value through other comprehensive income or through profit or loss is recognised in the statement of profit or loss.

The effective interest rate method is a method of calculating the amortised initial amount of financial assets or liabilities and of allocating interest income or interest expense over the relevant period. An effective interest rate is the rate at which the discounted future payments or cash inflows are equal to the current net carrying amount of the asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows taking into account all contractual terms of a given financial instrument (e.g., early repayment options that are not

separated from the host contract), without taking into account possible future losses on outstanding facilities. This calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income on the net carrying amount of those assets is recognised at the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9. Fee and commission income and expense

Fee and commission income and expenses on amounts due from clients are recognised as interest income using the effective interest rate method. Fees and commissions for the grant of a credit product, collected prior to its disbursement, are deferred until funds are disbursed to the client. Fees for the provision of syndicated loans are recognised as revenue once the syndicate is formed, if the Group has retained no part of the credit risk for itself or has retained a part at the same effective interest rate as other members of the syndicate.

Other fee and commission income is recognised in principle when the promised goods or services are transferred to the client. In the case of fees and commissions for credit limits, income is recognised at the end of the availability period.

Fee and commission expenses are recognised on an accrual basis, i.e., when the services are received from the service provider, with costs of mandatory legal fees being recognised at the moment the obligation to pay arises.

2.10. Recognition of income and expense related to bancassurance

The Group recognises and accounts for income and expenses from insurance products in accordance with their economic substance. Due to the economic substance, the Group distinguishes between the following types of fees:
1. fees which are an integral part of the consideration for the financial instrument additionally offered,
2. fees which are consideration for performing additional activities after the sale of the insurance product,
3. fees received for the provision of insurance intermediation services.

Consideration received or receivable by the Group from sale of an insurance product with a financial instrument where the insurance product is directly linked to the financial instrument is an integral part of the consideration for the financial instrument and is accounted for over time as an integral part of interest rate and recognised as interest revenue in the statement of profit or loss.

A direct link exists in particular when at least one of the following two conditions is met:
1. a financial instrument is always offered by the Group with an insurance product, i.e., both transactions are concluded at the same time or are concluded in a sequence in which each subsequent transaction follows from the previous one,
2. an insurance product is offered by the Group exclusively with a financial instrument, i.e., the client cannot purchase from the Group an insurance product identical in terms of its legal form, terms and economic content without buying a combined financial product.

If one of the conditions is not met, a detailed analysis of the economic content of the insurance product is carried out in order to determine whether the criteria for independence of insurance contracts from the financial instruments offered are met. The analysis of a direct link between an insurance product and a financial instrument may result in unbundling of the composite product, i.e., separating the fair value of the financial instrument from the fair value of the insurance product sold together with the instrument. In such a case, the consideration due to the Group for the sale of the insurance product is divided between the part constituting an element of the amortised cost of the financial instrument and the part constituting consideration for the distribution of the insurance product.

The consideration is allocated in proportion to the fair value of the financial instrument and the fair value of the distribution service relative to the total of the fair values. The fair value of the financial instrument is calculated using the income approach, based on the calculation of the present value of the future amounts, taking into account the product's current profitability and cost. The fair value of the consideration for the intermediation (distribution) service is calculated using the market method by applying prices and other relevant information generated by identical or comparable market transactions.

The Group recognizes the consideration as fee and commission income at the time of sale or renewal of the insurance product. The revenue from sale of insurance products is reduced by a provision for the Group-estimated percentage of refunds made in periods after the sale of the insurance product (e.g., due to cancellation of the insurance by the client). If during the term of the insurance contract the Group receives consideration for performing activities/services resulting from the sold insurance product or if performance of such activities/services is probable, the Group accounts for the consideration during the contract term, in accordance with the principle of matching revenues with costs. The consideration is recognized as fee and commission income, based on progress towards complete satisfaction of the performance obligation. Where it is not possible to accurately determine the number of activities performed by the Group over a specified period of time, the Group accounts for the consideration on a straight-line basis over the life of the insurance product unless there is evidence that another method of accounting would better illustrate the degree of progress of the work.

The amount of anticipated returns and the proportion of revenue distribution based on the economic content of the revenue are reviewed each time relevant information on significant changes in this respect becomes available, but not less frequently than at the reporting date.

Costs directly related to the sale of an insurance product with a financial instrument are accounted for in accordance with the principle of matching revenues with costs:

1. as a component of the amortised cost of a financial instrument if all revenue from the sale of the insurance product is accounted for using the effective interest rate method,
2. if the consideration has been split – in the proportion applied to split the revenue into revenue recognised under the amortised cost calculation and revenue recognised on a one-off basis or settled over time.

Fixed costs or costs not related directly to the sale of insurance products or financial instruments are recognised in profit or loss when incurred.

2.11. Hedge accounting

Hedge accounting is used to offset changes in the fair value of hedged items and hedging items.

Under the transitional provisions of IFRS 9, the Group decided to continue to apply IAS 39 to hedge accounting.

The Group may decide to apply the hedge-accounting requirements of IFRS 9 at a later date. In accordance with the hedge accounting principles contained in IFRS 9, it is necessary to apply the requirements of IFRS 9 in the event of implementation of subsequent fair value or cash flow hedge accounting at the Group.

The Group applies hedge accounting provided that all of the following criteria specified in IAS 39 are met:

1. at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; the documentation includes the identification of the hedging instrument, the hedged item, the nature of the hedged risk and the manner in which the Group will assess the effectiveness of the hedging instrument in offsetting the threat of changes in the fair value of the hedged item;
2. the hedge is expected to be highly effective in offsetting changes in fair value, consistent with the risk management strategy originally documented for that particular hedging relationship,
3. the effectiveness of the hedge can be reliably measured, i.e., the fair value of the hedged item and the fair value of the hedging instrument can be reliably measured,
4. the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedge accounting is an integral part of the financial risk management process at the BOŚ Group.

Financial risk is managed as part of the risk management process in place at the Group.

The Group uses hedge accounting to hedge the fair value of financial instruments. Fair value hedge is a hedge against changes in the fair value of a recognized asset, liability or probable future liability or an identified portion of this recognized asset, liability or probable future liability, which can be attributed to a particular risk and can affect the profit or loss.

A fair value hedge that meets the conditions for hedge accounting in a given period is recognised by the Group as follows:

1. changes in fair value of a hedging instrument (i.e., derivative instrument designed and qualified as fair value hedge) is recognized in profit or loss,
2. the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss,
3. interest on hedging derivatives is presented in the same line of the statement of profit or loss in which interest on the hedged instruments is presented, i.e., as interest income,
4. measurement of a hedged financial asset classified as measured at fair value through other comprehensive income arising from factors other than the hedged risks is recognised in revaluation reserve until the asset is disposed of or has matured.

The Group discontinues to apply hedge accounting in the event of expiry, sale, termination or execution of the hedging instrument/hedged item, or when the hedging relationship no longer meets the criteria for hedge accounting. When hedge accounting ceases to be applied, the measurement of hedged items that are measured at amortised cost (without applying hedge accounting policies) attributable to the hedged risk recognised in the periods when the hedge was effective is taken to profit or loss.

The Group does not apply cash flow hedge accounting.

2.12. Financial assets and liabilities

Initial recognition

The Group recognises a financial asset and a financial liability in its statement of financial position when it becomes party to the contractual provisions for that financial instrument. Financial assets are recognised when the Group acquires the right to receive cash flows, and financial liabilities – when it is required to pay cash. At initial recognition, financial assets and liabilities are classified in the appropriate measurement category.

At initial recognition, financial assets and liabilities are measured at fair value, which, in the case of items not measured at fair value in subsequent periods, is increased or reduced by direct transaction costs.

Measurement of financial assets after initial recognition

After initial recognition, the Group measures financial assets in accordance with the classification rules, at amortised cost or at fair value.

Amortised cost is the amount at which a financial asset or a financial liability is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any difference between the initial amount and the amount at maturity, calculated using the effective interest rate method, and minus any impairment losses. Penalty interest is recognised at amortised cost.

Fair value measurement involves determining the value that would be received to dispose of an asset or paid to transfer a liability in an arm's length transaction in the principal (or most advantageous) market at the measurement date in current market conditions (i.e., the exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Classification and measurement of financial assets

Under IFRS 9, financial assets are classified to the appropriate measurement model at initial recognition. Financial assets of the Group are classified into the following measurement categories:

1. Financial assets measured at amortised cost,
2. Financial assets measured at fair value through other comprehensive income,
3. Financial assets measured at fair value through profit or loss,
4. Financial assets measured at fair value through profit or loss.

Classification into the measurement categories is based on:

1. the business model within which the financial assets are managed, and
2. the test of characteristics of contractual cash flows (the SPPI test – solely payments of principal and interest).

Business models

The business models are defined by the Group's key management. The business models identified by the Bank reflect its operating activity, i.e., the method of managing a specific group of assets and the purpose for which these assets were recognised or acquired. Individual identified business models are groups of assets that are jointly managed, assessed and reported.

When identifying business models for each group of financial assets, the Group considers their qualitative aspects and quantitative criteria.

Qualitative aspects

The qualitative aspects include analysis and assessment of:

1. the business objective for which the assets were recognised or acquired,
2. how the performance of assets within a given business model are assessed and reported to the Bank's key management and presented as part of external reporting,
3. the reasons for decisions to sell financial assets,
4. solutions and organizational structures within which specific groups of assets are recognised or acquired,
5. the type of risk affecting performance of individual asset groups,
6. the manner in which the managers of particular groups of assets are remunerated, in particular whether the remuneration is based in part or in whole on the fair value of the managed assets.

Quantitative criteria

The quantitative criteria used in the identification and periodic review of business models relate to the assessment of materiality and frequency of sale of assets held within particular models. It is assumed that in the HtC business model, the sale of financial assets is allowed in particular in the following cases:

1. if the assessment of cash flow recoverability deteriorates, in order to limit the effects of credit risk,
2. close to the contractual maturity,
3. occasional sale (even if the amount of assets sold is significant),
4. insignificant value of the assets sold.

If the quantitative criteria, such as significant and frequent sale of financial assets with no deteriorated credit risk assessment, are not met, it is necessary to reassign the entire portfolio of financial assets, from which the sale was effected, and thus to change the classification of this portfolio to the value category.

Following analyses, the Group's financial assets were allocated to the following business models:

1. the Held to Collect (HtC) model,
   a model whose objective is achieved by collecting contractual cash flows. Assets held within the HtC model are credit facilities and loans, receivables purchased as part of the factoring business, and debt securities acquired for investment purposes.
2. the HtCS (Held to Collect or Sell) model,
   a model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Assets held within the HtCS model are debt securities acquired to secure current liquidity needs and the yield profile.
3. Other business models
   Assets acquired within other business models are assets acquired trading purposes to generated profit from changes in their market value or to earn remuneration in the form of trading spread. These business models apply mainly to derivative financial instruments and securities.

SPPI test

As required by IFRS 9, financial assets held within the HtC and HtCS models are subject to the SPPI test. The SPPI test should be performed for each financial asset in the HtC and HtCS models at initial recognition and when the asset is subject to significant modification.

The objective of the SPPI test is to confirm that contractual cash flows resulting from these financial assets are solely payments of principal and interest on the principal amount outstanding, where:

1. the principal is the fair value of the financial asset at initial recognition.
2. the interest consists of consideration for the time value of money, for the credit risk, for the liquidity risk, administrative costs, as well as a profit margin.

The SPPI test includes, in particular, an analysis of the cash flow characteristics in relation to early repayment and rollover terms, changes in the currency of the financial asset, terms that increase the volatility of cash flows beyond the volatility resulting from changes in market interest rates (e.g., leverage), terms that limit the possibility of financial redress against specific assets of the debtor.

Classification of financial assets to measurement categories based on business models and the SPPI test

Business models	SPPI test Cash flows are solely payments of the principal and interest	SPPI test Cash flows are not solely payments of the principal and interest
HtC Model	measured at amortised cost	measurement at fair value through profit or loss
HtCS Model	measurement at fair value through other comprehensive income	measurement at fair value through profit or loss
Other business models	The SPPI test is not performed; obligatory measurement at fair value through profit or loss	

Financial assets by measurement category

1. financial assets measured at amortised cost
   This measurement category primarily includes amounts due from retail and institutional clients. It also includes receivables purchased as part of the factoring business, debt securities in the investment portfolio held to collect contractual cash flows, and amounts due from banks, including buy-sell back transactions.
2. Financial assets measured at fair value through other comprehensive income

BOŚ BANK 30 lat

This measurement category includes debt securities acquired to secure current liquidity needs and the yield profile, held to collect contractual cash flows and for sale, as well as investment equity securities.

3. Financial assets measured at fair value through profit or loss
   This measurement category includes derivative financial instruments and debt securities purchased for trading purposes.
   Credit facilities with interest rates structured as a multiplier of a reference rate, disclosed as amounts due from clients, constitute a separate item in this measurement category This item includes preferential loans granted with support from the public sector.

Due to on-going discussions on the classification and measurement of financial instruments that include a multiplier, the above approach may change in the future.

Change of measurement category of a financial instrument

A change of the financial assets measurement category can occur only as a result of a change of the business model. A change of business objectives related to a financial asset or a change in assignment of the asset to a given business line are not considered a change of the business model.

Change of a measurement category due to the business model change is recognized prospectively, i.e., as of its date.

Financial liabilities are not reclassified.

Modification of financial assets

The Group identifies a modification of a financial asset when there is a change in the contract under which the financial asset arose, affecting the amount and timing of cash flows. Cash flow changes resulting from the initial contract with the client are not recognised as modifications. A change in the contractual terms of repayment may be made for both credit risk management and commercial reasons.

The Group distinguishes between significant and non-significant modifications of financial assets.

Quantitative criterion

A significant modification consists of a change in contractual terms of payment for a given financial asset and gives rise to a difference of more than 10% between the amount of future cash flows resulting from the modified financial asset discounted with the original effective interest rate and the amount of future cash flows resulting from the financial asset before the modification discounted with the same interest rate. If difference is less than 10%, the modification is non-significant.

In the case of financial assets with identified evidence of impairment, a modification is deemed to be significant based on quantitative grounds if the amount of financing exceeds 50% of the amount of the financial asset as at the date of the modification.

Qualitative criterion

A modification of financial assets under the circumstances presented below is recognised as a significant modification:

- addition of a feature that affects results of the SPPI test,
- a change in the currency of a facility not provided for in the initial contract terms,
- a change of the counterparty, which is considered a significant modification.

Significant modification

A significant modification results in derecognition of the original asset from the statement of financial position, recognition in profit or loss account of unsettled costs and commissions, and initial recognition of a financial asset resulting from the modification. A new effective interest rate is established for the modified asset.

Non-significant modification

A non-significant modification does not result in derecognition of the existing financial assets in the statement of financial condition. Gain (loss) on a non-significant modification is recognised in profit or loss.

Impairment of financial assets

IFRS 9 introduced a new approach to estimating losses on financial assets measured at amortised cost and at fair value through other comprehensive income. This approach is usually based on determination of expected losses.

Recognition of expected losses depends on the change in the level of risk since the initial recognition of a financial asset. The Group identifies three key buckets of financial assets in the context of changes in the level of risk:

- Bucket 1 – includes exposures for which there has been no significant increase in credit risk since initial recognition, understood as an increase in the probability of insolvency. For such exposures, expected losses are recognised for the next 12 months or until the maturity date of the exposure if it falls in less than 12 months.
- Bucket 2 – includes exposures for which there has been a significant increase in the level of risk since initial recognition, but the event of default has not yet become probable. For such exposures, expected losses are recognised for the remaining life of the exposure.
- Bucket 3 – includes exposures for which events of default have materialised (there is an indication of impairment). For such exposures, expected losses are recognised over the remaining life of the exposure.

The Group also identifies POCI (Purchased or Originated Credit Impaired) assets, i.e., financial assets that were credit-impaired at the date of initial recognition. For POCI exposures, expected losses are recognised over the remaining life of the exposure.

For the purposes of estimating loss allowances, the Group uses its own estimates of risk parameters based on internal models consistent with IFRS 9. Expected credit losses are the product of individual estimated values of PD, LGD and EAD parameters for each exposure, and the final amount of expected losses is the sum of expected losses in individual periods (depending on the bucket – over the next 12 months or over the remaining life), discounted using the effective interest rate. The parameters estimated in accordance with IFRS 9 are subject to adjustment on account of macroeconomic scenarios.

Measurement of allowances for expected credit losses, provisions for financial guarantees and financial commitments in the Polish and in foreign currencies (including currency exchange differences) is recognised as the Group's expense or income arising from the allowances and provisions.

Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount is disclosed in the statement of financial position only when the Group has a legally enforceable right to offset the recognised amounts and intends to settle on a net basis, or the realize the asset and the settle the liability simultaneously.

Financial liabilities

Financial liabilities after initial recognition are measured at amortised cost using the effective interest rate method. The Group derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires.

Liabilities arising from derivative financial instruments are measured at fair value through profit or loss.

Equity investments

Equity investments are classified as measured at fair value through other comprehensive income. Classification of equity investments into this measurement category is irrevocable. Gains or losses resulting from the difference between the selling price and the purchase price or from a change in the fair value of these investments are not recognised in the statement of profit or loss even if an investment is sold. Only dividend income is recognised in the statement of profit or loss.

Equity investments were classified as measured at fair value through other comprehensive income because of their investment nature and the way economic benefits are achieved through dividends received.

Equity instruments classified as measured at fair value through other comprehensive income are measured using the capital asset pricing model. The model uses financial forecasts of individual companies and market parameters such as cost of capital and beta coefficient calculated based on data from comparable companies as well as discount, liquidity premium and control premium.

Sell and buy-back transactions

Securities sold under repurchase agreements (repo transactions, sell-buy-back transactions) are disclosed in the financial statements as securities if the entity retains substantially all risk and rewards incidental to ownership of such securities. A liability to a counterparty is recognised in amounts due to other banks or amounts due to clients, as appropriate.

Securities purchased under agreements to resell (reverse repo transactions, buy-sell-back transactions) are recognised as amounts due from other banks or amounts due from clients, as appropriate. The difference between the selling price and the repurchase price is treated as interest and accounted for on a straight-line basis over the term of the agreement.

Securities lent to counterparties are not derecognised from the Group's balance sheet.

Securities borrowed by the Group are not recognised in the financial statements unless they are sold to third parties. In such a case, the purchase and sale transactions are recognised in the financial statements and the relevant gains and losses are taken to profit or loss on trading activities.

The obligation to return borrowed securities is recorded at fair value as amounts due to clients. The risk and rewards incidental to ownership of the securities are retained by the counterparty.

Trade receivables and contract assets

In the case of trade receivables and contract assets, the Group measures expected credit losses over the entire life of those assets.

2.13. Non-current assets held for sale

Non-current assets are classified as "held for sale" and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

The Group does not carry assets held for sale.

2.14. Intangible assets

Goodwill

Following initial recognition goodwill is carried at cost less cumulative impairment losses. Impairment testing is performed every year. In addition, an assessment is made at each reporting date to determine whether there is any indication that goodwill may be impaired.

The Group assesses whether on the reporting date there are no premises that would cause the carrying amount of goodwill to be higher than its recoverable amount. To this end, the Group prepares an impairment test for goodwill every year, irrespective of whether there is any indication of impairment. The test is prepared in accordance with IAS 36.

The recoverable amount is estimated based on the value in use of cash-generating units (CGUs) that have been allocated to goodwill.

Value in use is the present value of the future cash flows expected to be derived from CGUs. The value in use takes into account the residual value of CGUs. The residual value of a CGU is calculated by extrapolating cash flow projections beyond the forecast period using a specified growth rate.

Projections of future cash flows cover a period of 5 years and are based on:

1. historical data reflecting the CGU's potential to generate cash flows,
2. forecasts of the balance sheet and profit and loss account for the period covered by the forecast,
3. assumptions included in the budget of the Group,
4. analysis of the reasons for the discrepancy between past cash flow projections and actual cash flows.

The present value of future flows is calculated using an appropriate discount rate, taking into account the risk-free rate, the risk premium, the low capitalisation premium and the specific risk premium.

The present value of future flows is compared to the carrying amount (as at the date of the test) for the sum of goodwill and the carrying amount of the CGU's assets, excluding the deferred tax portion.

Licenses and software

Purchased licenses and internally developed computer software are capitalized at the amount of the costs incurred to purchase and prepare the software for use. Capitalised costs are amortised over the estimated useful life of the software on a straight-line basis.

Expenses related to maintenance of computer programs are recognised as costs when incurred or as deferred costs.

Useful lives of intangible assets range from 1 to 15 years.

Expenditure on intangible assets

The Group recognises expenditure on intangible assets incurred in the development phase of projects carried out internally only if the Group has the appropriate technical and financial means to complete the development and use of the asset and has the possibility to reliably determine the expenditure incurred that can be directly attributed to the creation, production and adaptation of the asset for use in the manner intended by the management.

Capitalised costs are amortised on a straight-line basis upon completion of development work. Estimated useful lives of such assets are determined on a case-by-case basis.

Impairment testing

Intangible assets are tested for impairment whenever there are events or circumstances indicating that the carrying amount may not be recoverable. The carrying amount is immediately reduced to the recoverable amount if the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

2.15. Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation. Historical cost includes expenditure directly related to the acquisition of the assets.

Subsequent expenditure is included in the carrying amount of an item of property, plant and equipment or recognised as a separate item of property, plant and equipment (where appropriate) only when it is probable that future economic benefits associated with the item will flow to the Group and its cost can be measured reliably. All other repair and maintenance expenses are charged to profit or loss in the accounting period in which they are incurred. Land is not depreciated.

Property, plant and equipment are depreciated on a straight-line basis over their useful lives, which for each class of property, plant and equipment are:

1. Buildings – 40 years (depreciation rate: 2.5%),
2. Leasehold improvements – 2-12 years or less if the contract so requires (depreciation rate: 10%),
3. Equipment and vehicles – 3-20 years (depreciation rate: 10%-100%).

The residual value and useful lives of property, plant and equipment are also reviewed as at each reporting date.

Depreciable items of property. plant and equipment are tested for impairment whenever there are events or circumstances indicating that the carrying amount may not be recoverable. The carrying amount is immediately reduced to the recoverable amount if the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the fair value of an item of property, plant and equipment less costs to sell and value in use.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds from sale with the respective carrying amounts and recognised in profit or loss.

Property, plant and equipment under construction include assets in the course of construction or assembly and are measured at cost less any impairment losses. An item of property, plant and equipment under construction is not depreciated until the construction or assembly work is completed and the item is placed in use.

2.16. Leases

The Group classifies as leases all contracts under which it uses or leases out non-current assets for a specified period in exchange for consideration.

The Bank as the lessor

As the lessor, the Group classifies lease contracts as finance leases or operating leases.

The Group classifies contracts that transfer substantially all risks and rewards incidental to ownership of the leased assets as finance leases. Other lease contracts are classified as operating leases.

The Bank as the lessee

At the inception of the lease, the Group, as the lessee, recognises a right-of-use asset and a lease liability.

The liability arises from the present value of future cash flows (lease payments under the lease contract) discounted using the interest rate of the lease.

The Group applies exemptions from the requirements of IFRS 16 concerning
1. use of low-value assets – the value of the asset does not exceed PLN 20 thousand,
2. short-term leases of up to 12 months.

For exempt contracts, the Group does not recognise right-of-use assets asset and lease liabilities. Lease payments related to such contracts are recognised as expenses in the statement of profit or loss on a straight-line basis during the lease term.

When determining the lease term, the Group determines the non-cancellable lease term, taking into account the period covered by the extension option, if the Group assumes the option will be exercised, and by the termination option if the Group assumes that it will not be exercised.

The Group revises the lease term if there is a change in the non-cancellable period of the lease.

After the commencement date of the lease, the Group measures the right-of-use asset at cost:
1. less any accumulated depreciation and impairment losses; and
2. adjusted for remeasurement of the lease liability.

After the commencement date, the Group measures the lease liability by:
1. increasing the carrying amount to reflect interest expense on the lease liability;
2. reducing the carrying amount to reflect the lease payments made;
3. remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised fixed lease payments.

The Group accounts for a lease modification as a separate lease if both:
1. the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

2. the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the liability by discounting the updated lease payments using an updated discount rate and recognises the remeasurement by:
1. reducing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for modifications that decrease the scope of the lease;
2. making a corresponding adjustment to the right-of-use asset for other lease modifications.

2.17. Deferred income tax

For the purposes of these financial statements, deferred tax is calculated using the balance-sheet liability method. The Group recognises deferred tax liabilities and assets for temporary differences arising from different recognition of revenue and costs in accordance with the applicable accounting principles and corporate income tax rules.

Main temporary differences arise from remeasurement of certain financial assets and liabilities, including derivative contracts, provisions for retirement and other post-employment benefits, as well as deductible tax losses.

Deferred tax provisions are recognized in full amount, with the exception of:
1. where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss, and
2. in the case of taxable temporary differences arising from investments in subsidiaries or associates and interests in joint ventures – except where the timing of the reversal of the temporary difference is controlled by the investor and where it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which the temporary differences can be utilised, except where a deferred tax asset arises from the initial recognition of an asset or liability arising from a transaction that:
1. is not a business combination; and
2. at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Income tax on items recognised in other comprehensive income is also recognised in other comprehensive income.

Deferred income tax is determined using the tax rates (and tax laws) that are expected to be effective when the related deferred tax assets are realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose future effect is certain as at the reporting date.

The Group offsets deferred tax assets against deferred income tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

2.18. Foreclosed assets

Foreclosed assets are initially recognized at their fair value. If the fair value of a foreclosed asset is higher than the amount of the debt, the difference constitutes an amount due to the borrower and is reimbursed to the account of the owner of the foreclosed asset, after deducting costs of the foreclosure, storage and valuation of the asset.

If the fair value of a foreclosed asset is lower than the amount of the debt, the difference constitutes an amount due from the borrower which may be subject to restructuring or collection.

There are no foreclosed assets in the Group.

2.19. Prepayments, accruals and deferred income

Prepayments are costs incurred in the current financial year and relating to future periods. They are disclosed in the statement of financial position as 'Other assets'.

Accrued expenses are costs pertaining to the current period that will be incurred by the Group in future periods. Accrued expenses and deferred income are disclosed in the statement of financial position as 'Other liabilities'.

2.20. Provisions for employee benefits

The Group recognises provisions for retirement benefit obligations based on estimates of such obligations calculated using an actuarial model. The actuarial model applied by the entity to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, uses the projected unit credit method.

The projected unit credit method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The entire amount of actuarial gains and losses is recognised in other comprehensive income.

2.21. Provisions

Provisions are recognised when all of the following conditions are met:

1. as at the reporting date, the Group has a present, legal or constructive obligation to spend funds resulting from past events, and legal opinions are used to determine the existence of this obligation,
2. when the probability of there being an expense to settle the claim is greater than the probability of there not being such an expense, and
3. when the amount of that expenditure can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation, taking into account the time value of money (if material) and the risks associated with the liability.

When the amount of the expected expenditure is discounted, the increase in the provision due to the passage of time is recognised as interest expense.

2.22. Equity

Equity is composed of capital and reserves created in accordance with the legal regulations, i.e., the respective acts and the Bank's Articles of Association.

Common equity

Common equity comprises registered share capital and share premium.

The share capital is stated at par, in accordance with the Articles of Association and the entry in the National Court Register.

The share premium account is created from the excess proceeds from the issue of shares above par value remaining after covering the issue costs.

Treasury shares

Amounts paid for repurchases of treasury shares are charged to equity and disclosed in the separate line item 'Treasury shares' in the statement of financial position.

Revaluation reserve

The revaluation reserve comprises the change in the amount value of financial assets classified as measured at fair value through other comprehensive income resulting from their measurement and deferred tax on items recognised in the revaluation reserve, gains or losses on a hedging instrument (cash flow hedge accounting) due to the effective portion of the hedge and gains and losses on a hedged item measured at fair value through other comprehensive income (fair value hedge accounting) due to factors other than the hedged item, as well as actuarial gains and losses on a defined benefit plan.

Retained earnings

Retained earnings include undistributed profit or loss and other components of equity, i.e., other statutory reserve funds, other capital reserves and general risk fund.

Other components of equity are recognised in profit or loss and are used for the purposes specified in the Articles of Association or the applicable laws.

2.23. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise items maturing within three months of the acquisition date, including: cash in hand, unrestricted balances with central banks , Treasury bills and other eligible bills, amounts due from other banks and short-term Treasury securities.

2.24. Brokerage business

Dom Maklerski BOŚ S.A. acts as a custodian for clients' securities accounts. These assets have not been recognised in the consolidated financial statements, because the Group does not control them, does not benefit from them and does not incur any risk due to these assets.

2.25. New standards, interpretations and amendments thereto published and approved by the European Union but not yet effective and not yet applied by the Bank

IFRS	Amendment	Date of entry into force in the EU / approval by the EU	Effect on the Bank
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 15 – IBOR reform – Phase 2	The regulations published as part of Phase 2 of the IBOR reform relate to: – changes in contractual cash flows – addition to IFRS 9 of a solution that will enable recognition of modifications to contractual cash flows due to the IBOR reform by updating the effective interest rate of the contract to reflect the transition to an alternative reference rate (there will be no obligation to cease recognition or adjust the carrying amount of financial instruments); a similar solution applies to IFRS 16 with respect to recognition of lease modifications by lessees; – hedge accounting – there will be no need to discontinue hedge accounting simply because of the changes required by the reform if the hedge meets the other hedge accounting criteria; and	January 1st 2021 /January 15th 2021	The amendment will have no material effect on the financial statements.

	– disclosures – entities will be required to disclose information about the new risks arising from the reform and how they are managing the transition to alternative reference rates.		
Amendments to IFRS 4 *Insurance Contracts – Deferral of IFRS 19*	The amendments provide for two optional solutions to reduce the impact of the different effective dates of IFRS 9 and IFRS 17.	January 1st 2021 / December 15th 2020	The amendment will have no material effect on the financial statements.
Amendments to IFRS 16 *Leases* – COVID-19 Related Rent Concessions	The amendment provides for the possibility for lessees not to assess rent concessions occurring as a direct consequence of the COVID-19 pandemic and meeting certain conditions as a lease modification.	June 1st 2021 /October 9th 2020	The amendment will have no material effect on the financial statements.
Amendments to IFRS 3 *Business Combinations*	The amendments to IFRS 3 narrow and clarify the definition of a 'business'. They also allow for a simplified assessment of whether a set of assets and activities constitutes a group of assets rather than a business. The amendments will apply prospectively.	January 1st 2020 /April 21st 2020	The amendment will have no material effect on the financial statements.
Amendments to IFRS 9 *Financial instruments*, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure of IBOR Reform	The amendments provide temporary and narrow exemptions to the hedge accounting requirements of IAS 39 and IFRS 9 so that companies can continue to meet the requirements, assuming that the existing interest rate benchmarks are not altered as a result of the interbank rate reform.	January 1st 2020 /January 15th 2020	The amendment will have no material effect on the financial statements.
Amendments to IAS 1 and IAS 8 – definition of the term 'material'	The amendments to IAS 1 and IAS 8 harmonise and clarify the definition of 'material' and provide guidance to improve the consistency of the use of the concept in International Financial Reporting Standards.	January 1st 2020 /November 29th 2019	The amendment will have no material effect on the financial statements.
Amendments to the Conceptual Framework for Financial Reporting	The purpose of the amendments is to update existing references in several standards and interpretations to previous frameworks with references to the revised Conceptual Framework.	January 1st 2020 /November 29th 2019	The amendment will have no material effect on the financial statements.

2.26. New standards, interpretations and amendments thereto, which have been published and are not endorsed by the European Union

IFRS	Amendment	Date of entry into force in the EU / approval by the EU	Effect on the Bank
IFRS 17 *Insurance Contracts*, amendments to IFRS 17	IFRS 17 *Insurance Contracts* will replace IFRS 4 *Insurance Contracts*, which currently allows continued recognition of insurance contracts in accordance with the accounting policies applicable in national standards and which, as a result, implies a number of different solutions. IFRS 17 requires consistent accounting for all insurance contracts. Contractual obligations will be recognised at present value rather than historical cost. The standard is to be applied on a full retrospective basis (if that is not practicable, the entity should use either the modified retrospective approach or the fair value approach). The purpose of the amendments is to: – reduce costs by simplifying some of the standard requirements; - facilitate clarification of financial results; and – facilitate transition to the new standard by deferring the effective date of the standard until 2023 and introducing additional expedients to facilitate the first implementation of IFRS 17.	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.
Amendments to IAS 1 *Presentation of Financial Statements – Classification of Liabilities*	The amendments concern the presentation of liabilities in the statement of financial position. In particular, they clarify that the classification of liabilities as current or non-current should be based on the rights existing at the end of the reporting period. The amendments will apply prospectively.	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.
Amendments to IFRS 3 *Business Combinations*	The amendments to IFRS 3 *Business Combinations* update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.	January 1st 2022 / Second half of 2021	The amendment will have no material effect on the financial statements.
Amendments IAS 16 Property, *Plant and Equipment*	The amendments to IAS 16 *Property, Plant and Equipment* prohibit deducting from the cost of property, plant and equipment the amounts received from the sale of items produced in preparation for the asset's intended use. Instead, the company should recognise proceeds from the sale and the corresponding costs in the statement of profit or loss.	January 1st 2022 / Second half of 2021	The amendment will have no material effect on the financial statements.
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	The amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specify what costs an entity considers when assessing whether a contract will result in a loss.	January 1st 2022 / Second half of 2021	The amendment will have no material effect on the financial statements.

3. Corrections of prior period errors

In the 12 months ended December 31st 2020, there were no corrections to prior period errors.

4. Significant estimates and judgments

The preparation of the Group's financial statements requires judgments, estimates and assumptions that affect the reported income, expenses, assets, and liabilities and related notes, as well as disclosure of contingent liabilities. Uncertainties related to these assumptions and estimates may result in changes to carrying amounts of assets and liabilities in the future. They also require exercising professional judgment in the process of applying the adopted accounting policies.

The Group made the assumptions and estimates concerning the future based on historical data and its knowledge as at the time of preparation of these financial statements. The estimates and assumptions are reviewed on an ongoing basis. The assumptions and estimates may change in the future due to market developments or other events beyond the Group's control. Changes in assumptions and estimates are recognised in the period of the change or in the period of the change and future periods if the change in estimates and assumptions relate to the current period and future periods.

The Group recognises and measures current and deferred tax assets and liabilities in compliance with the requirements of IAS 12 Income Taxes, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into account the assessment of uncertainty related to tax settlements. Whenever there is uncertainty as to whether and to what extent a tax authority would accept a tax settlement, the Group discloses such settlement taking into account the assessment of uncertainty.

4.1. Financial assets

Impairment of amounts due from clients

The Group reviews all credit exposures on a monthly basis to identify credit exposures threatened with impairment and measures the impairment of credit exposures. The measurement of impairment is based mainly on estimating the probability of impairment based on historical analysis, estimating potential losses (LGD parameter) and assessing the macroeconomic environment in which the Group operates.

The models used to estimate allowances for expected credit losses constructed in accordance with IFRS 9 consist of elements for which the Group uses all available historical information and forecasts. When using these models, the Group estimates the level of credit risk with the highest possible accuracy.

Expected credit losses are calculated using the survival model with monthly granularity, as well as the PG, LGD and EAD parameters determined individually for each exposure, taking into account the exposure’s expected duration.

The resulting amount of expected credit losses is the sum total of expected losses in each period (over the 12-month horizon for Bucket 1 or the remaining lifetime for Bucket 2) discounted using the effective interest rate.

The structure of the models used to estimate expected credit losses includes modelling for the following parameters:

- PD (probability of default) – estimated probability of default over a given time horizon (12-month or lifetime),
- LGD (loss given default) – part of the exposure that would not be recovered in case of default,
- EAD (exposure at default) – expected amount of exposure at the time of default.

The model also contains a component comprising macroeconomic forecasts. Due to the significant share of unique credit exposures in the Group's portfolio, whose characteristics and structure indicate little connection between their risk and the macroeconomic environment, the historically observed impact of forecasts was not material to the valuation. Accordingly, the sensitivity of the estimated loss to changes in macroeconomic forecasts is very limited.

Because of the outbreak of the COVID-19 pandemic and the risk of deterioration in the quality of the Group's loan portfolio, a decision was made to make an expert adjustment to the PD parameter to reflect the sensitivity of individual sectors of the economy to the COVID-induced crisis. The following three severity groups were defined:

1. clients whose business has not been affected by the pandemic;
2. clients whose industries/sectors have been affected by the pandemic to a limited extent;
3. clients from industries/sectors severely affected by the credit/default risk.

In 2020, a PLN 12.3m allowance for expected credit losses caused by the COVID-induced crisis recognised.

Due to the macroeconomic factors (mainly higher foreign exchange rates), a further PLN 4.5m of loss allowance was recognised for the retail portfolio. In 2020, a PLN 4.6m provision was recognised for statutory loan deferments. The deferments concerned PLN 17m of the retail portfolio's gross carrying amount, mainly mortgage-secured loans (PLN 14m). Other factors and their projected development (mainly employment trends) did not have a significant impact on the level of allowances.

More volatility in the amount of allowances is expected in the coming periods as a result of reallocation of exposures between Bucket 1 and Bucket 2; the higher volatility results from different expected loss horizons. Estimating expected credit losses over the life of an exposure is subject to greater estimation uncertainty than estimating losses over the next 12 months due, in principle, to the longer period over which unexpected factors affecting the risk of the exposure may occur. Moreover, the financial condition of some of the Group's clients may deteriorate, despite the support and relief offered by the banking sector and the government to mitigate the effects of the COVID-19 pandemic.

Theoretical reallocation as at December 31st 2020 of 1% of Bucket 1 exposures with the highest risk level to Bucket 2 for each type of exposure would result in a PLN 33.36m increase in the amount of allowances.

In December 2020, the sensitivity of the amount of impairment allowances to changes in the LGD parameters was analysed using the group method. If recovery rates changed by +/- 10 percentage points, the estimated amount of loss allowances for clients would decrease by PLN 28.9m or increase by PLN 28.9m, respectively.

SPPI test

The SPPI test is an assessment of whether the cash flows arising from financial assets held in the HtC and HtCS models constitute only payments of principal and interest on the principal. This assessment (in addition to the business model) determines the classification of financial assets into the category of measurement at amortised cost or fair value through other comprehensive income. Therefore, this assessment is crucial for the adoption of a correct measurement principle for loan agreements and other financial contracts that are the core business of the Group.

Under IFRS 9, the amount of principal amount is the fair value the financial assets at initial recognition. Interest represents consideration for the time value of money, a margin for the credit risk and other risks incurred in holding the principal, and a profit margin.

The SPPI test includes an analysis of concluded contracts/agreements to determine cash flow characteristics resulting from these contracts/agreements. The SPPI test is considered to permit classification into the amortized cost or fair value through other comprehensive income measurement categories if there are no identified characteristics of cash flows whose timing or formula for determining their value depends on factors other than those that meet the definition of principal and interest on principal. The characteristics that do not meet this definition include:

- leverage,
- making the consideration contingent on conditions unrelated to the time value of money or the risk incurred,
- early repayment options, but early repayment in an amount equal to the unpaid portion of principal and interest including reasonable early repayment consideration is deemed to satisfy the SPPI test.

The Group conducts the SPPI test for all financial assets subject to this assessment, with the SPPI test being conducted at the product group level for assets originated under standard documentation, while for negotiated assets it is conducted on a contract-by-contract basis. The SPPI test resulted in the identification of a portion of loan agreements where the interest rate is based on a multiplier formula (leverage). These are some of the preferential

loans provided with support from the National Fund for Environmental Protection and Water Management. Accordingly, the loans were classified as measured at fair value through profit or loss.

Business model

Assessment of the business model is an important estimation due to the fact that, under IFRS 9, it is one of the elements determining the classification of financial assets to an appropriate measurement category. The Group establishes business models within which financial assets are managed, based primarily on their business objectives and the manner in which financial results are achieved. Changes in the business model may occur only in case of material internal or external changes in the activities of the Group and will be determined by the management. Business models are expected to be changed rarely. Specifically, a change in business objective for a particular financial asset does not constitute a change in the business model.

4.2. Fair value of financial instruments

The value of financial instruments not listed in active markets is determined using valuation models accepted by the market. They take into account, among other things, the present value of future cash flows (discounted using the zero-coupon curve with a margin), comparable transaction prices (if any), as well as reference to similar instruments quoted in active markets. In the rare cases where it is not possible to use such models and fair value cannot be determined reliably, financial instruments are carried at cost. For information on the sensitivity of financial instruments, see Note 45.

4.3. Provision for retirement benefits

Any employee who reaches retirement age is entitled to a retirement benefit.

Retirement benefits related to pre-retirement benefits or allowances and retirements as part of collective redundancies are not included in the calculation and if they occur in the future, the provision should be separately recalculated.

An employee who has acquired disability pension entitlements under social security due to permanent incapacity to work has a right to a disability benefit.

Both the retirement benefit and the disability benefit are calculated on the basis of the employee's remuneration, calculated as holiday pay, at the time when the benefit entitlement has been accrued.

Depending on the length of service at Bank Ochrony Środowiska S.A., the amount of retirement benefit is as follows:

- up to 10 years of service 100%,
- more than 10 years of service 200%,
- more than 15 years of service 250%.

The calculation was based on employees' salaries and wages as at December 31st 2020.

4.4. Scope of consolidation

The preparation of the consolidated financial statements requires judgment as to the nature of the involvement in other entities in which the Bank invested. In particular, exercising of control over another economic entity is subject to such judgment.

As disclosed in Note 1.2. the consolidated entities are Dom Maklerski BOŚ S.A., BOŚ Leasing–EKO Profit S.A., and MS Wind sp. z o.o. These are entities in which the Bank holds, directly or indirectly, 100% of equity interests, and the conditions for exercising control are met.

The Bank holds a 29.48% ownership interest in Wodkan S.A. The members of the management board of Wodkan S.A. were not recommended to their respective positions by the Bank. According to its judgement, the Bank does not exercise control over Wodkan S.A., and the company is not consolidated in the Group's consolidated financial statements. Also, the Bank has no significant influence on the activities of Wodkan S.A. There are no material transactions between the Bank and Wodkan S.A., in particular the Bank does not finance its operations, does not actively participate in the development of its strategy and day-to-day operations, and the Bank's employees do not hold any management positions at Wodkan S.A. under the authority of the Bank.

4.5. Taxation

The Polish law on corporate income tax, personal income tax, value added tax or social security contributions is subject to frequent changes, resulting in the lack of well-established practice, ambiguity and inconsistency. This situation gives rise to differences in the interpretation of tax legislation by public authorities and taxpayers. Tax settlements and other settlements (e.g., settlement of customs duties) may be subject to inspection by competent authorities for up to six years. The competent authorities have the power to impose significant penalties with interest. There is a risk that the authorities will take a different stance from that of the Company with respect to the interpretation of the regulations, which could affect the amount of public charges disclosed in the financial statements.

The Group recognises a deferred tax asset based on the assumption that taxable profit will be earned in the future to allow the asset to be utilised. If taxable profit deteriorates in the future, this assumption may prove unwarranted.

4.6. Provision for legal risk concerning the portfolio of mortgage loans denominated in foreign currencies

In the consolidated financial statements as at December 31st 2020, the Group recognised a provision for the risk related to mortgage loans denominated in foreign currencies. The provision was recognised in accordance with IAS 37 based on certain assumptions about cash outflows or decrease in amounts due from clients.

The provision covers the costs assumed in the adopted scenarios of possible resolution of the issue, i.e., reaching out-of-court settlements with clients or unfavourable court rulings. The provision also accounts for the impairment identified in accordance with the expected credit loss model (that is impairment of loans with respect to which the clients have filed court actions to have the agreements rescinded).

The total amount of the provision is PLN 399m, of which PLN 376m is disclosed as a provision for court proceedings and legal risk of claims related to foreign currency mortgages, and the balance of PLN 23m is disclosed as additional allowances for expected credit losses.

It is estimated that with respect to some of the loans in the currency mortgage portfolio the Bank may, in justified cases, enter into out-of-court settlements to mitigate the legal risk.

With respect to the scenario that takes into account the possibility of concluding out-of-court settlements with clients, it was assumed that the sector-wide resolution of the issue of foreign currency-denominated mortgage loans (particularly CHF-denominated mortgages) proposed by the Chairman of the Polish Financial Supervision Authority would materialise. These assumptions are based on conversion of the existing loans denominated in or indexed to a foreign currency into PLN-denominated products. It is further proposed that the hitherto repayments of the loans denominated in or indexed to foreign currencies would be settled as if they had been PLN-denominated products since the outset, i.e., based on repayment schedules with interest accruing at WIBOR rates plus margin. As a result of such conversion, the value of the existing portfolio of foreign currency-denominated loans will decrease, which is reflected in the amount of the provision.

In connection with recent unfavourable court rulings, probabilities were assigned to individual scenarios whereby final court decisions are unfavourable for the Group. The scenarios of unfavourable outcomes are based on legal opinions and the Group's experience to date and include invalidation of loan agreements, conversion of loans into

PLN-denominated products, and refund by the Bank of the margin charged for currency conversion at loan disbursement or receipt of repayments. The provision calculation model also contains assumptions as to the forecast increase in the number of lawsuits filed by clients over a period of three years. The date of the loan, which determines the statute of limitations for claims, is also important in estimating financial loss.

At the time of issue of these consolidated financial statements, the number of court cases closed by a final court judgment is small and does not constitute a reliable basis for assessing the risk of a specific resolution scenario. Therefore, the estimate of legal risk provisions for the portfolio of mortgage loans denominated in or indexed to foreign currencies is uncertain and the amount of the provision may change in the future. The provision is subject to periodic monitoring and reviews.

The Group performed a sensitivity analysis of the estimate of the litigation provision due to the change in key parameters related to the probability of the Bank losing court cases and the probability of the scenario whereby loan agreements are declared invalid.

PLNm

MODEL SENSITIVITY	PARAMETER CHANGE		
	-25 p.p.	BASE-CASE SCENARIO	+25 p.p.
PROBABILITY OF LOSING COURT CASE	-37	399	+28
PROBABILITY OF LOAN BEING DECARED INVALID	-12	399	+12
WILLINGNESS TO REACH AGREEMENT	-23	399	+23

Note 36 presents factors and circumstances that may have a material impact on the amount of the litigation provision for the portfolio of mortgage loans denominated in foreign currencies, such as the expected session of the Civil Chamber of the Supreme Court or the possible introduction of the Settlement Programme.

4.7. Provision for refund of loan costs in case of early repayment

The provision for reimbursement of consumer credit costs on account of early repayment was recognised in accordance with IAS 37, with the assumptions regarding early repayment of consumer credit made for the loan portfolio as at December 31st 2020.

As at December 31st 2020, ten court proceedings were pending against the Bank for reimbursement of consumer credit costs on account of early repayment. The amount of the provision for early repayment refunds was PLN 1.53m.

5. Risk management

5.1. Credit risk

Risk management functions are concentrated directly at the Bank, as the Bank's assets represented the predominant part of the assets of the BOŚ Group as at December 31st 2020.

Definition of credit risk

Credit risk is defined as the risk of potential loss due to default by a client or counterparty at a contractual date.

In 2020, in order to limit the negative impact of the economic consequences of the COVID-19 pandemic on the quality of the loan portfolio, the Group applied specific financing and client monitoring policies, adapting them to the current market and epidemic situation. In the applied solutions, the Group was guided by the Supervisory Stimulus Package for Security and Development prepared by the Polish Financial Supervision Authority (KNF), as well as the Position of banks with respect to harmonisation of rules of offering assistance tools for the banking sector (non-legislative moratorium) prepared in consideration of the European Banking Authority's Guidelines on legislative and non-legislative moratoria on loan repayment applied in the light of the COVID-19 crisis.

The Group actively participated in assistance programmes carried out under the government's relief measures.

Credit risk management methods

The Group pursues its credit risk management policy on an individual basis (credit transaction) and on a portfolio basis taking into account the level of risk appetite.

The risk appetite was determined within the limits set by prudent and stable risk management practices and is assumed to be moderate.

The credit risk management process at the Group included in particular:

1. procedures for assessing the risk of a single transaction, establishing collateral and making credit decisions,
2. monitoring the level of risk, setting exposure limits, and stress-testing,
3. rating and scoring models applied to assess the risk of retail and institutional clients,
4. principles of responsibility in the credit risk assessment process,
5. portfolio-based assessment of credit risk,
6. rules for management of retail and mortgage-backed exposures,
7. rules for identifying impaired exposures and determining impairment losses,
8. rules of reporting to the Bank's management staff,
9. IT systems supporting the implementation of these tasks.

Credit risk at the transaction level was managed in accordance with the following rules:

1. each credit transaction required a comprehensive assessment of credit risk, reflected in an internal rating or scoring,
2. credit decisions were based on client's creditworthiness,
3. credit risk of potential and concluded credit transactions was measured at origination and was subsequently monitored,
4. the credit process ensured independence of the credit risk assessment functions from the sales function,
5. credit decisions were made by persons authorized to do so,
6. terms of credit transactions offered to clients depended on the level of credit risk associated with a given client and/or transaction.

The financing of a single transaction was conditional on:

1. the borrower's ability to repay the requested facility in accordance with the schedule agreed upon with the Bank,
2. provision of collateral in the form and in the amount acceptable to the Bank in so far as internal regulations require,
3. fulfilment by the borrower of other criteria, such as, in particular, results of the client's relationship with the Bank to date and assessment of the client's credit history in the banking sector.

The portfolio credit risk was managed using various methods of credit risk measurement and assessment, including:

1. assessment of the likelihood of insolvency,
2. assessment of the expected credit loss,
3. the matrix of migration between delinquency periods and classes of risk,
4. credit generation analysis (analysis of loans provided over a given period of time),
5. the share and structure of non-performing loans in the portfolio,
6. the share and structure of impaired exposures and exposures with indications of impairment.

The Group has a Credit Risk Management Committee whose purpose is to shape the principles of credit risk management and monitoring, within the framework defined by the relevant strategy, policy or rules adopted by the Bank's Management Board or Supervisory Board.

The Committee operates in the following core areas:

1. credit risk management and credit process,
2. valuation of assets,
3. credit risk assessment models and methodologies.

In addition, the Supervisory Board is supported in its risk oversight functions by the Risk Committee. The Risk Committee is composed of members of the Supervisory Board. In particular, the Committee gives its opinion on the Bank's overall current and future risk appetite and risk management strategy, supports the Supervisory Board in the implementation of this strategy, and verifies whether the prices of assets and liabilities offered to clients are fully consistent with the Bank's business model and its risk strategy.

Processes established for risk management

In 2020, the Group continued efforts to improve the efficiency of its risk assessment processes, including optimisation of the credit monitoring, credit decision, and credit application processes, and took steps to reduce the credit portfolio concentration level.

As part of its risk monitoring process, the Group performed risk assessments prior to the origination and throughout the life of loan transactions. For risk assessment principles, see 'Risk assessment techniques'.

The frequency and scope of risk monitoring depended on the level of the identified risk. The monitoring was carried out by a separate organisational unit within the credit risk assessment and management functions; the units responsibilities include monitoring of the loan portfolio and valuation of individually significant exposures.

The risk of untimely debt service or default as well as and the risk of loss or decrease in the value of collateral were mitigated using an early warning system, managed by the risk monitoring unit.

If the Group identified a situation that could jeopardize timely debt repayment, the Group used reminders and carried out restructuring procedures using appropriate IT tools.

The Group had in place a Policy for Management of Non-Performing Exposures, which defines steps to be taken to achieve reduction, within a prescribed time limit, of non-performing exposures and an action plan that supports the implementation of this policy.

In the process of risk assessment and monitoring, the Group used information from internal databases and external sources, including from Biuro Informacji Kredytowej S.A. (credit bureau), Krajowy Rejestr Długów (debt register) and Centralna Bazy Danych – Bankowy Rejestr (bank register).

The Group assessed credit risk using rating and scoring models. The models were built, developed, monitored and supervised by the Risk Area, taking into account internal and external requirements. Significant models were subject to periodical validation at least annually, performed by an independent validation unit.

The Group operated a multi-level credit decision-making system based on the principle that the higher the risk of a transaction resulting due to its complexity, the amount of exposure or the client's economic and financial situation, the higher the decision-making level at which the credit decision must be made. The decision-making levels with the highest authority are the Head Office Credit Committee and the Management Board of the Bank. Credit decisions are made upon prior verification of risk made by a risk assessment and management specialist, i.e., a risk expert from a separate organizational unit in the Bank's Head Office, independent from the sales functions.

In credit decisions on transactions concluded with members of the Bank's bodies or persons holding managerial positions at the Bank, or entities affiliated with them through equity or organisational links, the Bank was guided by the requirements of the Banking Law Act.

The Group preferred collateralised transactions, with the proviso that in the retail segment the maximum amount of unsecured transactions was determined taking into account features of credit products, the impact of such transactions on the Bank's performance and the amount of potential losses.

The level of collateral depended on the level of risk generated by the transaction, including in particular the type of transaction and its duration.

In determining the amount of the required collateral, the Bank was guided by the principle of prudent valuation.

When selecting the form of security, the Group took into account:

1. adequate protection of the Group's interests,
2. the amount of costs related to establishing the security,
3. the ability to quickly liquidate collateral.

In assessing, monitoring, verifying and updating the value of collateral, the Group uses external databases, including AMRON and Cenatorium.

Risk assessment techniques

Clients and transactions were subject to a comprehensive credit risk assessment process incorporating the relevant supervisory requirements .

The Group applied various risk assessment models, depending on the type of client and credit transaction.

The credit risk assessment model for retail clients (natural persons) seeking financing for non-business purposes included quantitative analysis (determination of the amount and stability of sources of funds for debt repayment) and qualitative analysis (assessment of characteristics of the client that have a material bearing on the client's willingness to repay the credit obligation in accordance with the agreed schedule, including scoring and assessment of the client's behaviour based on information from Biuro Informacji Kredytowej S.A.). The assessment process took into account the provisions of Recommendations T and S of the PFSA, in particular with respect to the levels of DtI and LtV ratios and the applicability of the simplified credit assessment procedure.

The credit risk assessment model for retail clients seeking financing for business purposes or for statutory activity (municipal borrowers) focused on two areas: assessment of the client and assessment of the transaction.

Client assessment involved quantitative and qualitative elements. The quantitative assessment focused on the key areas of the client's business activity with a bearing on profit generation capacity and financial liquidity. Depending on the type of client, the qualitative assessment included analysis of development plans, experience and skills of the managing personnel, and quality of relations with external stakeholders, including the Group.

To the extent specified in the Bank's internal regulations, client assessment was made against the background of the economic situation in the client's industry, on the local market and in the country. In addition, for selected transactions, the assessment took into account the scale of the client's exposure to negative effects of movements

in interest rates and foreign exchange rates as well as the client's policy of hedging against foreign exchange and interest rate risks.

The model for assessing the risk of local government units included analysis of the client based on assessment of key budget indicators, debt ratios as well as analysis of the credit transaction, including assessment of the projected debt ratios, the quality of collateral and the duration of the transaction.

Where financing was sought by an entity operating within a group of related parties, the Group assessed the credit risk taking into account the economic and financial condition of the group.

The transaction was assessed in particular on the basis of an assessment of the purpose of the financing, the length of the facility term and the value of the collateral. The Group proposed financing structures that ensured risk sharing between borrowers and the Group, mainly through involvement of the borrowers' own funds adequate to the scale of the risk.

Impact of the COVID-19 pandemic on the Group's credit risk

In order to mitigate the negative impact of the COVID-19 pandemic on the quality of the loan portfolio, the Bank implemented a number of restrictions on new loan applications, including:

1. blanket ban on funding for industries that were particularly affected by the pandemic,
2. reducing LtV limits for mortgage loans,
3. tighter criteria for retail lending.

The Group also implemented a number of relief instruments and facilities for borrowers to mitigate the impact of the pandemic, including:

1. special rules governing financing and monitoring of clients, in line with the solutions proposed by the PFSA in the Supervisory Stimulus Package for Security and Development,
2. possibility of granting financing based on forward-looking creditworthiness and simplified liquidity projections, while adjusting the main measures of credit risk to the degree of economic uncertainty,
3. guidelines on specific procedures for processing loan-deferment applications and applications for renewal of revolving facilities based on non-statutory moratorium.

During the pandemic, the Group modified the restrictions depending on market conditions, reducing or removing most of the restrictions on personal financing and the LtV limits for residential loans.

Credit risk assessment tools

In order to measure credit risk, the Bank uses various tools/applications in which the applicable rating/scoring models and creditworthiness assessment methodology have been implemented.

The diversity of applications used is related to customer segmentation and/or types of credit transactions.

Description of individual concentration risks, methods of their assessment and monitoring

The Bank managed concentration risk in accordance with the rules set out in the Concentration Risk Management Policy.

The Group identified, measured, monitored and reported the concentration risk on the following levels:

1. an individual client/transaction, and
2. the loan portfolio.

At the client and transaction level, the concentration risk was managed in compliance with the supervisory exposure limits, in particular those under Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26th 2013 or the Banking Law, as well as by applying the principle that the risk assessment and monitoring process depends on the amount of credit exposure.

At the loan portfolio level, the concentration risk was managed by observing internal limits or warning values approved by the Bank's Management Board or Supervisory Board for limits used by the Bank to determine the acceptable level of appetite for credit risk.

In particular, the Group applied the following limits:
- geographical limits – limit of exposure to other countries;
- product-specific limits – e.g., maximum LTV;
- limits for the portfolio of mortgage loans and loans financing real property – in compliance with the PFSA Recommendations,
- limits for selected sectors of the economy,
- limits concerning the share of foreign currency loans in the Bank's portfolio,
- limits for the aggregate exposure to related entities/groups of related entities with respect to which the Bank's exposure exceeds 10% of the Bank's eligible capital,
- limits for the aggregate exposure to related entities/groups of related entities, depending on the rating of the related entity/group of related entities,
- sector limits;
- limits for credit exposures towards the Bank's subsidiaries.

In 2020, the Group introduced a limit on exposures under credit transactions to which special funding rules were applied in connection with the COVID-19 pandemic.

In the concentration risk management process, the Group used an early warning system for internal limits. The system is based on distinguishing three levels of limit utilisation and gradual implementation of measures mitigating the risk of exceeding the limit.

The utilisation of the limits was monitored and reported to the Bank's governing bodies on a regular basis, in accordance with the Bank's internal regulations.

5.1.1. Methodology for recognising impairment of credit exposures

At each reporting date, the Group reviews credit exposures, which consists in identification of credit exposures threatened with impairment and exposures with regard to which a significant increase in credit risk has been reported since their initial recognition – taking into account reasonable and supportable information, including forward-looking information. Subsequently, it designates an allowance for expected credit losses based on the allocation of the exposure to three Buckets depending on changes in credit quality. As a general rule, all new exposures other than POCI assets are allocated to Bucket 1 exposures.

Based on the amount and the risk profile, the Group classifies credit exposures into exposures measured individually and exposures measured using the group method and assesses them for any indications of impairment.

Apart from POCI assets, the Group recognises as impaired those exposures for which there has been indications of impairment due to one or more events occurring after the initial recognition and the event giving rise to a loss affects the exposures expected cash flows which can be reliably estimated.

In particular, the Group considers the following as evidence of impairment:
1. a delay in repayment of principal or interest exceeding 90 days, excluding credit exposures to banks for which a delay in repayment of principal or interest exceeding seven days is considered to be an indication of impairment,
2. deterioration of the economic and financial situation of the debtor during the facility term which causes reclassification of the debtor to rating class 14 or worse, reflecting a threat to the repayment of the debt,
3. granting by the Bank to the client, for economic or legal reasons arising from the client's economic and financial difficulties, of a concession in the terms of financing (conclusion of a restructuring agreement),
4. deterioration of financial metrics, including liquidity and debt service capacity of the client,
5. declaration of bankruptcy, high probability of bankruptcy or other reorganisation affecting the debtor's financial condition and solvency,

6. occurrence of other events that are equivalent to the client's becoming insolvent, resulting in the client's inability to repay the debt on time.

Additionally, credit exposures related to the financing of wind farm projects are also considered to be impaired if there is a cash deficit during the term of the facility and if the company's valuation turns negative in the scenario of potential debt restructuring modelled by the Bank until the end of the financing period.

Measurement of impairment of credit exposures using the case-by-case approach is based on the calculation of the present value of expected future cash flows discounted at the original effective interest rate. For loans with collateral, the present value of expected future cash flows includes the cash flows that may be obtained from enforcement of the collateral, less the costs of enforcement and sale of the collateral. For credit exposures related to financing of wind farm projects, the present value of expected future cash flows is estimated on the basis of a valuation model which simulates individual cash flows that are likely to be generated by a given project based on specified, modifiable valuation parameters. If the present value of realisable cash flows declines, an allowance is recognised in the amount corresponding to the expected credit loss due to the debtor's failure to meet its obligations to the Bank.

The individual (case-by-case) approach to impairment assessment is applied to:

1. individually significant credit exposures:
   a. which meet the criteria for recognition of individual impairment, or which are quarantined; or
   b. which are an exposure to a client to which the Bank has other credit exposures for which an indication of impairment has been identified (propagation of impairment); or
2. individually non-significant credit exposures for which an indication of impairment has been identified or exposures are quarantined, provided that at the time of recognition of impairment they were individually significant and met additional conditions specified by the Bank,
3. individual non-significant credit exposures with unique credit risk characteristics.

Impairment losses on receivables which are considered individually non-significant and for which evidence of impairment has been identified are calculated based on impairment measurement parameters estimated using statistical methods based on historical data for separate portfolios grouped for combined measurement of impairment according to similar credit risk characteristics. Historical loss trends are adjusted for non-recurring events.

As art of the group approach, the Group applies a breakdown into the following eight homogeneous risk portfolios within the two client segments (retail and institutional):

1. retail mortgage loans (the portfolio is further segmented by level of LTV and loan currency),
2. retail cash loans,
3. retail mortgage-backed cash loans,
4. retail exposures to micro-enterprises (excluding mortgage-backed cash loans), except for micro-enterprises applying the accounting principles arising from the Accounting Act (full accounts) and classified as retail clients,
5. retail exposures to micro-enterprises applying the accounting principles arising from the Accounting Act (full accounts) and classified as retail clients,
6. other retail clients,
7. corporate clients, including financial institutions and environmental funds,
8. public finance clients.

Reversal of a loss, i.e., reclassification of a loan to unimpaired exposures is possible after the evidence of impairment ceases to exist and after the lapse of a quarantine period in which no impairment evidence is identified.

For the exposures for which no evidence of impairment has been identified, the Bank recognises loss allowance the group approach.

For the purposes of assessing whether there has been a significant increase in credit risk since initial recognition, the Bank compares the risk of default over the expected period of funding as at the reporting date and as at the date of initial recognition. The Bank considers that a significant increase in credit risk has been identified for an asset if the quantitative or qualitative criterion is met or if the time past due exceeds 30 days; the criteria are reviewed at the level of exposures.

Quantitative criteria

The reference underlying allocation of retail exposures to Bucket is determined as the difference between:

1. the current credit risk assessment defined as a lifetime PD in the time horizon from the reporting date to the maturity date, determined on the basis of risk characteristics applicable at the reporting date,
2. the initial credit risk assessment defined as a lifetime PD in the time horizon from the reporting date to the maturity date, determined on the basis of risk characteristics applicable at the date of initial recognition.

The Group determines a significant deterioration in credit risk by comparing the observed value of a relative change in risk assessment with its theoretical value, which is the threshold above which the Group considers a significant deterioration in credit risk to have occurred.

The allocation threshold at the level of a single exposure is determined using a statistical model based, among other things, on information about credit risk assessment as at the date of initial recognition and the time since the date of initial recognition.

For corporate exposures, allocation to Bucket 2 is based on the assumption that the rating of the exposure remains stable over time (the Bank did not expect the rating to improve over time) and occurs as a result of a deterioration in the debtor's economic and financial condition during the facility term, which is reflected in rating grade 12 or 13, or allocation to a rating grade 9-11 if the rating assigned at initial recognition was lower than 6.

Qualitative criteria

The Bank allocates exposures to Bucket 2 in the following cases:

1. there is a delay in repayment (beyond a specified material threshold) of more than 30 days as at the reporting date or such delay has been reported at least once on the last three reporting dates,
2. forborne exposure for which the evidence of impairment has ceased to exist and the quarantine period, during which the evidence was not identified, has expired,
3. an exposure become a forborne exposure.

In addition to the above criteria, the Group defined other specific qualitative criteria, such as criteria specific to clients in a given sector, criteria identified in the course of monitoring of institutional clients (exposures with higher risk, exposures on watch list), or exposures identified through multi-factor and holistic credit risk analysis.

In accordance with paragraph 5.5.10 of IFRS 9, the Bank identifies exposures with low credit risk. A credit exposure has a low risk of default if the borrower has a strong short-term capacity to meet its contractual obligations and adverse changes in economic and business conditions over the longer term may – but not necessarily will – reduce the borrower's ability to meet its contractual cash flow obligations.

The Group applies the Low Credit Risk approach to exposures from the public finance portfolio which do not meet the qualitative criteria for allocation to Bucket 2 and for which no evidence of impairment has been identified.

For the purposes of estimating impairment losses (expected credit losses), the Group continues to use its own estimates of risk parameters based on internal models consistent with the requirements of IFRS 9 requirements (such as exposure lifetime estimates or forecasts of future macroeconomic conditions). The Bank has developed a parametrisation methodology and built models consistent with IFRS 9. Expected credit losses are the product of individual estimated values of PD, LGD, EAD and CCF parameters for each exposure, and the final amount of expected losses is the sum of expected losses in individual periods (depending on the Bucket – over the next 12 months or over the remaining life), discounted using the effective interest rate. The parameters estimated in accordance with IFRS 9 are subsequently adjusted to reflect expectations regarding the macroeconomic situation. The Bank adjusts risk parameters to take account of future macroeconomic information (such as GDP, unemployment rate, WIBOR, FX rates, inflation) for portfolios for which it has identified relevant relationships with such information. Internally developed scenarios are used. Forecasts prepared by the Bank's economic analysts are the source of macroeconomic inputs.

The amount of allowances for expected credit losses, provisions for financial guarantees and financing commitments in the Polish and in foreign currencies (including currency exchange differences) is recognised as the Bank's expense or income arising from the allowances and provisions.

The methodology and assumptions adopted by the Bank to estimate impairment are reviewed on a regular basis in order to reduce the difference between estimated and actual losses. Back-testing is performed to assess the adequacy of impairment losses determined using the group method and the case-by-case approach; results of back-testing are used to determine process improvement measures.

5.1.2. Amounts due from banks

Below are presented gross amounts due from other banks by rating groups assigned by Moody's, Fitch and Standard & Poor's (S&P):

Item	December 31st 2020	December 31st 2019
Moody's		
A1	49,465	46,281
A2	30,472	63,495
A3	3,045	2,030
Aa1	7,957	9,664
Aa2	864	417
Aa3	21,061	12,622
Baa1	3,016	5,898
Baa3	-	683
Fitch		
A-	25,090	10,090
BBB	-	516
BBB-	538	-
unrated		
	14,108	14,037
Total	**155,616**	**165,733**

Internal rating	Equivalent Moody's class	December 31st 2020	Equivalent Moody's class	December 31st 2019
E	Ba3, B1	14,108	Ba3, B1	14,037
Total		**14,108**		**14,037**

5.1.3. Amounts due from clients

Item	December	December 31st 2019
Amounts due from clients measured at amortised cost		
Amounts due from clients without indications of impairment, including:	10,983,679	11,128,284
exposures without significant credit risk increase since initial recognition (Bucket 1)	8,582,957	8,691,476
exposures with significant increase in risk since initial recognition (Bucket 2), including:	2,400,722	2,436,808
wind farms	1,167,101	1,290,953
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows, including:	337,120	402,594
wind farms	219,641	252,616
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,709,690	1,601,327
wind farms	13,434	13,553
Total amounts due from clients measured at amortised cost (gross)	**13,030,489**	**13,132,205**
Impairment losses on:		
amounts due from clients – (Bucket 1)	- 84,772	- 79,182
amounts due from clients – (Bucket 2), including:	- 126,123	- 124,948
wind farms	- 30,947	- 32,837
amounts due from clients – (Bucket 3) with no indication of impairment, including:	- 10,245	- 11,511
wind farms	- 8,734	- 9,633
amounts due from clients – (Bucket 3) with indications of impairment, including:	- 981,869	- 955,372
wind farms	- 1,578	- 8,790
Total impairment losses	**- 1,203,009**	**- 1,171,013**
Total amounts due from clients measured at amortised cost (net)	**11,827,480**	**11,961,192**
Amounts due from client measured at fair value through profit or loss		
Fair value, including:	25,514	38,285
wind farms	-	-
Total amounts due from clients measured at fair value through profit or loss	**25,514**	**38,285**
Security deposits	31,704	4,317
Other receivables	2,599	-
Total amounts due from clients	**11,887,297**	**12,003,794**

Classification of amounts due from clients by measurement category, by segment:

December 31st 2020	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Amounts due from client measured at amortised cost					
Amounts due from clients without indications of impairment, including:	7,679,433	3,304,246	2,719,897	584,349	10,983,679
exposures without significant credit risk increase since initial recognition (Bucket 1)	5,481,028	3,101,929	2,556,871	545,058	8,582,957
exposures with significant increase in risk since initial recognition (Bucket 2), including:	2,198,405	202,317	163,026	39,291	2,400,722
wind farms	1,167,101	-	-	-	1,167,101
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows, including:	333503	3617	2160	1,457	337,120
wind farms	219,641	-	-	-	219,641
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,217,260	492,430	309,245	183,185	1,709,690
individually assessed	1,162,829	120,045	100,001	20,044	1,282,874
wind farms	13,434	-	-	-	13,434
Total amounts due from clients measured at amortised cost (gross)	**9,230,196**	**3,800,293**	**3,031,302**	**768,991**	**13,030,489**

December 31st 2020	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Impairment losses on:					
amounts due from clients – (Bucket 1)	-69,263	-15,509	-5,340	-10,169	-84,772
amounts due from clients – (Bucket 2), including:	-104,433	-21,690	-13,243	-8,447	-126,123
wind farms	-30,947	-	-	-	-30,947
amounts due from clients – (Bucket 3) with no indications of impairment,	-10,234	-11	-4	-7	-10,245
wind farms	-8,734	-	-	-	-8,734
amounts due from clients – (Bucket 3) with indications of impairment,	-682,510	-299,359	-166,842	-132,517	-981,869
individually assessed	-640,208	-63,600	-54,670	-8,930	-703,808
wind farms	-1,578	-	-	-	-1,578
Total impairment losses	**-866,440**	**-336,569**	**-185,429**	**-151,140**	**-1,203,009**
Total amounts due from clients measured at amortised cost (net)	**8,363,756**	**3,463,724**	**2,845,873**	**617,851**	**11,827,480**
Amounts due from client measured at fair value through profit or loss					
Fair value, including:	24,322	1,192	427	765	25,514
wind farms	-	-	-	-	-
Total amounts due from clients measured at fair value through profit or loss	**24,322**	**1,192**	**427**	**765**	**25,514**
Security deposits	31,704	-	-	-	31,704
Other receivables	2,599	-	-	-	2,599
Total amounts due from clients	**8,422,381**	**3,464,916**	**2,846,300**	**618,616**	**11,887,297**

December 31st 2019	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Amounts due from client measured at amortised cost					
Amounts due from clients without indications of impairment, including:	7,658,540	3,469,744	2,826,680	643,064	11,128,284
exposures without significant credit risk increase since initial recognition (Bucket 1)	5,445,050	3,246,426	2,647,037	599,389	8,691,476
exposures with significant increase in risk since initial recognition (Bucket 2), including:	2,213,490	223,318	179,643	43,675	2,436,808
wind farms	1,290,953	-	-	-	1,290,953
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows, including:	400,153	2,441	1,561	880	402,594
wind farms	252,616	-	-	-	252,616
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,246,411	354,916	212,400	142,516	1,601,327
individually assessed	1,169,017	96,062	77,074	18,988	1,265,079
wind farms	13,553	-	-	-	13,553
Total amounts due from clients measured at amortised cost (gross)	**9,305,104**	**3,827,101**	**3,040,641**	**786,460**	**13,132,205**

December 31st 2019	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Impairment losses on:					
amounts due from clients – (Bucket 1)	- 61,245	- 17,937	- 5,883	- 12,054	- 79,182
amounts due from clients – (Bucket 2), including:	- 98,136	- 26,812	- 16,790	- 10,022	- 124,948
wind farms	- 32,837	-	-	-	- 32,837
amounts due from clients – (Bucket 3) with no indications of impairment,	- 11,500	- 11	- 6	- 5	- 11,511
wind farms	- 9,633	-	-	-	- 9,633
amounts due from clients – (Bucket 3) with indications of impairment,	- 725,286	- 230,086	- 129,270	- 100,816	- 955,372
individually assessed	- 664,909	- 48,082	- 39,742	- 8,340	- 712,991
wind farms	- 8,790	-	-	-	- 8,790
Total impairment losses	**- 896,167**	**- 274,846**	**- 151,949**	**- 122,897**	**- 1,171,013**
Total amounts due from clients measured at amortised cost (net)	**8,408,937**	**3,552,255**	**2,888,692**	**663,563**	**11,961,192**
Amounts due from client measured at fair value through profit or loss					
Fair value, including:	36,347	1,938	648	1,290	38,285
wind farms	-	-	-	-	-
Total amounts due from clients measured at fair value through profit or loss	**36,347**	**1,938**	**648**	**1,290**	**38,285**
Security deposits	4,317	-	-	-	4,317
Other receivables	-	-	-	-	-
Total amounts due from clients	**8,449,601**	**3,554,193**	**2,889,340**	**664,853**	**12,003,794**

Amounts due from clients measured at amortised cost (gross) that are not past due and are not impaired

Amounts due from clients measured at amortized cost which are not past due (for even one day) are considered as not impaired if there is no other evidence of impairment. These are amounts due from clients with good economic and financial standing, with regular repayments for which there has been no indication of impairment, and impairment has been recognised for incurred but unidentified losses.

General characteristics of the rating classes are presented below:

Rating 1 Highest credit quality
Rating 2 Very high credit quality
Rating 3 High credit quality
Ratings 4-5 Very good credit quality
Ratings 6-7 Good credit quality
Ratings 8-9 Satisfactory credit quality
Ratings 10-11 Average and poor credit quality
Ratings 12-13 Very weak credit quality
Ratings 14-16 No creditworthiness (credit quality does not exist).

Below are presented gross amounts due from clients measured at amortised cost that were not past due and for which no impairment was recognised, by client classes:

Item	Rating	December 31st 2020	December 31st 2019
Amounts due from institutional clients	(1-3)	302	5,329
	(4-5)	122,542	249,216
	(6-7)	1,197,500	1,279,628
	(8-9)	2,961,831	2,447,471
	(10-11)	2,523,024	2,235,995
	(12-13)	643,312	1,297,370
	unrated	145,985	97,495
Total amounts due from institutional clients		**7,594,496**	**7,612,504**
Amounts due from retail clients	unrated	**3,197,672**	3,333,194
Total amounts due from retail clients		**3,197,672**	**3,333,194**
Total		**10,792,168**	**10,945,698**

The ratings are presented as at the reporting date.

*\ The ratings are consistent with the Bank's internal classification, where ”1” is the best rating and ”16” is the worst rating.

Amounts due from clients measured at amortised cost (gross) that are past due at the reporting date but not impaired, by client categories and days past due, with general description

Past-due exposure is the total of amounts due from clients in arrears for one or more days. No impairment is recognised for amounts due from clients past due less than 90 days, unless other available information provides evidence of impairment.

Below are presented gross amounts due from clients measured at amortised cost that were past due and for which no impairment was recognised, by client classes:

December 31st 2020 Days past due	Institutional clients	Retail clients	Total
from 1 to 30 days	16,653	84,433	101,086
from 31 to 60 days	46,546	16,831	63,377
from 61 to 90 days	50	5,043	5,093
over 90 days	-	267	267
Total	**63,249**	**106,574**	**169,823**

December 31st 2019 Days past due	Institutional clients	Retail clients	Total
from 1 to 30 days	22,609	108,826	131,435
from 31 to 60 days	607	20,012	20,619
from 61 to 90 days	264	7,708	7,972
over 90 days	3,254	4	3,258
Total	**26,734**	**136,550**	**163,284**

Amounts due from clients measured at amortised cost (gross) with recognised impairment , by client categories, with general description

Below are presented impaired amounts due from clients measured at amortised cost, by segment:

Item	December 31st 2020	December 31st 2019
Amounts due from institutional clients	1,217,260	1,246,411
Amounts due from retail clients	492,430	354,916
Total	**1,709,690**	**1,601,327**

BOŚ BANK 30 lat

Rating/scoring groups of amounts due from Group clients (gross), by client segment

Item	Rating	December 31st 2020	December 31st 2019
Amounts due from institutional clients	(1-3)	302	5,329
	(4-5)	148,259	287,532
	(6-7)	1,229,453	1,318,577
	(8-9)	3,063,796	2,492,557
	(10-11)	2,767,191	2,427,806
	(12-13)	985,144	1,672,842
	(14-16)	872,265	965,851
	unrated	188,108	170,957
Total amounts due from institutional clients		**9,254,518**	**9,341,451**
Amounts due from retail clients	unrated	3,801,485	3,829,039
Total amounts due from retail clients		**3,801,485**	**3,829,039**
Total		**13,056,003**	**13,170,490**

The ratings are presented as at the reporting date.

*\ The ratings are consistent with the Bank's internal classification, where "1" is the best rating and "16" is the worst rating.

Description of collateral pledged for loans

The Group accepted both physical assets as well as personal guarantees as collateral. The rules for establishing collateral provide that collateral must be adequate to the level of risk generated by a transaction.

The Group preferred loan collateral:

1. that would enable the Bank to reduce the amount of allowances,
2. that would be readily marketable, with proceeds from sale potentially enabling the Bank to recover the entire amount of the claim.

When selecting the form of security, the Group reviews the key criteria determining its effectiveness, including:

1. marketability of the collateral, i.e., the ability to sell the collateral without a significant decrease in its price and with reasonable promptness, i.e., in the period of time which does not expose the Bank to a change in the value of the collateral due to price movements typical for a given assets,
2. amount that reasonably recoverable in debt collection proceedings, taking into account legal, economic and other constraints which may affect the actual ability of the Bank to satisfy its claims,
3. access and ability to control the collateral during the term of the exposure.

The principle applied in the Group was to establish a legal collateral, if required, before facility disbursement.

The Group adjusted the value of the collateral using adjustment rates determined on a case-by-case basis for each type of collateral. As a general rule, the value of the collateral was monitored over the entire lending period.

In the case of mortgage-backed exposures, the Group followed Recommendation S regarding the maximum LTV and required that borrowers provide equity contribution.

In the process of monitoring the value of real property, the Group would carry out portfolio revaluation on a regular basis, using statistical methods.

In the case of real estate collateral, the valuation of collateral was prepared by an expert with the necessary qualifications and experience in property appraisal. The Bank verified valuations using data from such sources as the AMRON System (system of analysis and monitoring of real estate transactions) and the Cenatorium Database.

Foreclosed assets

The Group classifies repossessed collateral as 'foreclosed assets' and measures them in accordance with the accounting policies specified in the Note 2.18 to the consolidated financial statements.

Prior to foreclosure, it is mandatory that the Group has a plan how to use/dispose of the collateral assets once repossessed. A document specifying how the foreclosed asset is to be used/disposed of contains all the information that is relevant to make the foreclosure decision, and in particular:

1. information on costs expected to be incurred for possible caretaking, storage, insurance, taxes, etc.
2. information on the potential buyer, the negotiated price and the terms of payment – if the foreclosed asset is planned to be sold,
3. profitability of the transaction.

In most cases, buyers for such assets were already identified at the time of foreclosure and the transactions were profitable for the Group. Upon sale, the amount of the debt was reduced by the amount of proceeds rather than by the amount estimated by the appraiser (usually prices obtained in transactions to sell foreclosed assets are lower than the assets' value determined by the appraiser).

One of the forms of recovering debts is their sale. Selling price of debt claims depend, among other things, on property collateral. Where sale of loans (with debt collateralised by property assets) is more profitable than foreclosure and subsequent sale, the Bank sells the debt claims together with the underlying collateral.

As at December 31st 2020 and December 31st 2019, the Bank did not hold any foreclosed assets.

Credit exposure of the Group to wind farms

As at December 31st 2020, the Group's total exposure to the financing of wind farms was PLN 1,400.2m.

In 2020, the Group did not provide any new financing in the wind farm sector.

Material risks arising from financing wind farm projects

The risks identified by the Group as affecting the economics of RES businesses, including the Group's clients, in the context of loans granted in the past to finance construction of onshore wind farm project that rely on the green certificate support system are subject to continuous monitoring. All risks, including in particular market and regulatory risks, are taken into account in the monthly assessment and measurement of individual exposures by the Bank.

The exposures are measured with the use of a dedicated model which simulates cash flows for individual projects until the end of their planned life, with the assumed and updated measurement parameters, including:

1. project's productivity (volume of electricity produced and green certificates),
2. price paths for electricity and green certificates,
3. operating expenditure,
4. weighted average capital cost (WACC),
5. valuation scenarios.

The risk of volatility in market prices of electricity and green certificates is addressed by implementing in the valuation model the price paths projected by the Group for the medium and long term. The projected price paths are regularly updated based on reports from reputable independent external experts the Group has worked with since 2016. The most recent update of the forecast price paths took place in December 2020. An additional factor mitigating the risk of potential decline in revenues earned by the clients as a result of a temporary decrease in prices of energy and/or green certificates are the funds accumulated in reserve accounts used to support the current debt

service. Relevant contractual provisions oblige the clients to supplement the funds in the accounts if they need to be used to repay debt.

Impact of the coronavirus pandemic on the business of RES clients

The reduction in economic activity in Poland in 2020 caused by the COVID-19 outbreak dampened, as it did in other countries affected by the coronavirus pandemic, demand for electricity which in turn led to a decline in wholesale electricity prices, particularly in the first and second quarters of 2020.

However, it should be stressed that the economic downturn caused by COVID-19 has not affected, to date, the financial condition of the wind farm clients. Loans are serviced on a timely basis and in accordance with the agreed repayment schedules.

Risk arising from changes in property tax base

The amendment to the Act on Amendments to the Act on Renewable Energy Sources and Certain Other Acts, published on June 29th 2018, restored, with retroactive effect from January 1st 2018, provisions governing taxation of wind power plants with property tax, in force before January 1st 2017. The amendment was favourable to wind farm project owners but

municipalities where wind farms are located were deprived of expected higher tax revenues. Under the amended legislation, project owners applied to tax authorities for correction of previously submitted tax returns with respect to the amount of the property tax due, or for refund of overpaid tax. Refusing to accept this state of affairs, ten municipalities filed a joint complaint to the Constitutional Court to examine the compliance of the new regulations with the Constitution.

The Constitutional Court ruled in its judgment of July 22nd 2020 that the provisions causing retroactive reduction of property tax liabilities on wind farms for 2018 were unconstitutional. At the same time, the Constitutional Tribunal set a deadline of 18 months for the legislator to introduce appropriate statutory solutions in order to compensate the communes for the losses suffered as a result of the enactment of the provisions resulting in lower revenues from the wind farm property tax.

The scale of potential additional tax burdens and their impact on the financial standing of the Bank's clients from the wind farm sector will depend on the legal solutions adopted by the legislator to ensure compliance of the amended RES Act with the Constitution.

Risk of legal dispute of Bank's clients with Energa Obrót S.A.

Actions taken by Energa Obrót S.A. in September 2017, resulting in the cessation of the performance of twenty-two framework CPA agreements for the collection of property rights under certificates of origin for RES energy (green certificates) and the filing with the competent courts of actions against trading partners and banks for declaration of absolute invalidity of the agreements affected eight clients financed by the Bank. In two lawsuits brought by Energa Obrót S.A., the Bank and its clients acted as respondents; however, after the Bank concluded reverse agreements under the CPAs with its clients and therefore lost its legal interest in the proceedings, Energa Obrót S.A. withdrew its lawsuits against the Bank.

At present, the Bank does not directly appear as a co-respondent in any of the pending court cases, and therefore the Group does not identify a risk of having to incur any additional costs resulting from the litigation.

As at December 31st 2020, six of the Bank's clients were in litigation with Energa Obrót S.A. towards which the Group's total exposure was PLN 97.6m, representing 7.0% of the total exposure in the wind farm portfolio. The Bank monitors the status of the pending court proceedings and remains in contact with shareholders and sponsors of the wind farm projects. The proceedings conducted to date have resulted in five disputes ended with complete dismissal of Energa Obrót S.A.'s claim under judgments issued by common courts of the first instance, and one dispute ended with the final judgment of the Court of Arbitration. Following appeals filed by Energa Obrót S.A.

against the verdicts of the District Courts and the Court of Arbitration, further proceedings are pending before the Court of Appeal.
At the previous four hearings held before the Court of Appeal in Warsaw, judgments were handed down in favour of the Bank's clients. In the case of the other clients, the Court of Appeal has not set the hearing dates yet.

All debts of the clients who are in litigation with Energa Obrót S.A. are serviced in a timely manner.

Impairment losses recognised for the wind farm portfolio

Item	December	December 31st 2019
Amounts due from client measured at amortised cost		
Amounts due from clients without indications of impairment		
exposures with significant increase in risk since initial recognition (Bucket 2)	1,167,101	1,290,953
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	219,641	252,616
Amounts due from clients with indications of impairment, impaired (Bucket 3)	13,434	13,553
Total amounts due from clients measured at amortised cost (gross)	**1,400,176**	**1,557,122**
Impairment losses on:		
amounts due from clients – (Bucket 2)	- 30,947	- 32,837
amounts due from clients – (Bucket 3) with no indications of impairment	- 8,734	- 9,633
amounts due from clients – (Bucket 3) with indications of impairment	- 1,578	- 8,790
Total impairment losses	**- 41,259**	**- 51,260**
Total amounts due from clients measured at amortised cost (net)	**1,358,917**	**1,505,862**
Total amounts due from WIND FARM clients	**1,358,917**	**1,505,862**

As at December 31st 2020, the share of the wind farm portfolio in the Group's total (gross) institutional loans measured at amortised cost was 15.2%, representing 10.7% of the total lending portfolio; in absolute terms, the wind farm portfolio was PLN 1,423.5m.

As at December 31st 2020, the provision coverage ratio in the institutional lending segment was 56.1%, and 11.7% in the wind farm portfolio.

5.1.4. Debt securities

Securities by rating assigned to issuers

December 31st 2020	State Treasury	NBP	Banks	Public finance	Other financial institutions	Corporate	Total
AAA	-	-	-	-	49,654	-	49,654
A	3,584,451	-	249,650	-	-	-	3,834,101
A-	-	-	26,488	-	-	-	26,488
BBB+	-	-	558,741	-	184,862	-	743,603
none	-	2,179,952	-	147,739	304,397	805	2,632,893
Total	**3,584,451**	**2,179,952**	**834,879**	**147,739**	**538,913**	**805**	**7,286,739**

December 31st 2019	State Treasury	NBP	Banks	Public finance	Other financial institutions	Corporate	Total
AAA	-	-	-	-	49,518	-	49,518
A	3,652,141	-	-	-	-	-	3,652,141
BBB+	-	-	49,546	-	-	-	49,546
none	-	1,319,835	-	188,613	-	1,449	1,509,897
Total	**3,652,141**	**1,319,835**	**49,546**	**188,613**	**49,518**	**1,449**	**5,261,102**

The tables present a unified rating scale, as specified below. If an issuer is rated by more than one agency, the highest rating is presented.

Moody's	S&P	Fitch	Unified rating
Aaa	AAA	AAA	AAA
A2	A	A	A
A3	A-	A-	A-
Baa1	BBB+	BBB+	BBB+
Ba2	BB	BB	BB
Ba3	BB-	BB-	BB-

For municipal bonds for which there is no active market, internal ratings are assigned, in one of the following categories:

5	Very good credit quality
Ratings 6-7	Good credit quality
8-9	Satisfactory credit quality
10	Average and poor credit quality

Risk classes for issuers of municipal bonds serviced by the Bank are assigned in accordance with the credit rating methodology for local government units applied by the Bank .

Public finance		
Internal rating	**December 31st 2020**	**December 31st 2019**
5	6,586	9,819
6	12,299	3,838
7	93,902	39,021
8	21,363	79,272
9	5,662	56,663
10	7,927	-
Total	**147,739**	**188,613**

5.1.5. Concentration of exposures to industries and geographical markets, with assessment of the concentration risk

As at the 31st of December 2020, the 'Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems' and 'Public administration and defence, compulsory social security' sectors had significant shares in the lending portfolio of the Group of 13.6% and 11.8%, respectively.

Exposure by industry

Industry	Credit risk exposure	December 31st 2020 % share in total
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,768,313	13.6%
Real estate activities	1,536,646	11.8%
Wholesale trade, except trade in motor vehicles	905,202	6.9%
Construction of buildings	768,867	5.9%
Public administration and defence, compulsory social security	629,971	4.8%
Hospitality	534,854	4.1%
Sports, entertainment and recreational activities	336,853	2.6%
Manufacture of chemicals and chemical products	261,836	2.0%
Manufacture of food products	260,424	2.0%
Manufacture of fabricated metal products, except machinery and equipment	221,035	1.7%
Financial services, except insurance and pension funds	134,415	1.0%
Other sectors, including:	5,697,587	43.6%
retail clients	3,801,485	29.1%
Total gross amounts due from clients	**13,056,003**	**100.0%**
Impairment losses	- 1,203,009	
Security deposits	31,704	
Other receivables	2,599	
Total net amounts due from clients	**11,887,297**	

Industry	Credit risk exposure	December 31st 2019 % share in total
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,696,052	12.9%
Real estate activities	1,581,662	12.0%
Wholesale trade, except trade in motor vehicles	900,221	6.8%
Public administration and defence, compulsory social security	872,409	6.6%
Construction of buildings	701,998	5.3%
Hospitality	442,904	3.4%
Manufacture of food products	265,647	2.0%
Sports, entertainment and recreational activities	251,312	1.9%
Manufacture of chemicals and chemical products	243,784	1.9%
Manufacture of fabricated metal products, except machinery and equipment	211,385	1.6%
Other sectors, including:	6,003,116	45.6%
retail clients	3,829,039	29.1%
Total gross amounts due from clients	**13,170,490**	**100.0%**
Impairment losses	- 1,171,013	
Security deposits	4,317	
Other amounts due from clients	-	
Total net amounts due from clients	**12,003,794**	

5.1.6. Concentration of exposure to particular entities and groups

As at December 31st 2020, the Bank had eight individual exposures equal to or exceeding 10% of common equity where the borrower was a single entity or a group of entities linked through equity or otherwise , with the total amount of such exposures at PLN 1,934,032 thousand, or 91.5% of the Bank's eligible capital.

The largest exposures to a single entity or a group of entities linked through equity or otherwise are presented below.

No.	Exposure*\December 31st 2020
1	285,398
2	271,207
3	257,230
4	250,778
5	221,947
6	220,081
7	215,456
8	211,935
Total	**1,934,032**

No.	Exposure*\December 31st 2019
1	293,512
2	268,993
Total	**562,505**

*\ Exposure to an entity includes gross credit exposures, contingent liabilities (i.e., open credit lines and guarantees), debt securities issued by the entity and FX Spot, FX Forward and FX Swap transactions.

Ten largest client exposures, with risks assessment

December 31st 2020						
No.	Exposure	On-balance-sheet exposures*\	Debt under credit facilities – principal	Securities	Off-balance sheet exposures**\	Balance-sheet equivalent of derivative transactions
1	271,207	271,207	272,944	-	-	-
2	250,778	250,474	253,631	-	-	304
3	249,650	-	-	249,650	-	-
4	211,935	154,046	156,009	-	57,889	-
5	207,290	2,703	-	-	208,359	1,634
6	187,385	158,735	159,491	-	28,650	-
7	174,808	150,950	151,983	-	23,858	-
8	166,492	166,492	167,968	-	-	-
9	163,394	159,793	161,523	-	-	3,601
10	152,542	147,969	148,043	-	-	4,573

December 31st 2019						
No.	Exposure	On-balance-sheet exposures*\	Debt under credit facilities – principal	Securities	Off-balance sheet exposures**\	Balance-sheet equivalent of derivative transactions
1	293,512	292,610	293,867	-	-	902
2	268,993	265,495	268,731	-	-	3,498
3	196,548	81,146	82,907	-	115,402	-
4	195,251	194,943	194,692	-	308	-
5	186,322	186,322	188,526	-	-	-
6	182,608	182,608	184,355	-	-	-
7	164,692	120,631	121,339	-	44,061	-
8	155,620	126,447	127,371	-	29,173	-
9	147,470	144,019	144,074	-	-	3,451
10	138,431	96,976	97,058	-	41,196	259

* On-balance-sheet credit exposures include principal, interest, outstanding fees, discount and other amounts due.
** Off-balance-sheet exposures include credit lines, guarantees, open import letters of credit, accepted bills of exchange, confirmed letters of credit and other commitments.

5.1.7. Maximum exposure to credit risk

The credit risk exposure in particular categories of financial assets is presented below.

Item	December 31st 2020		
	Gross carrying amount	Impairment losses	Maximum credit risk exposure
Amounts due from other banks	**156,559**	**-943**	**155,616**
Financial assets held for trading	**113,134**	**-**	**113,134**
equity securities	14,032	-	14,032
derivative financial instruments	805	-	805
derivative instruments	98,297	-	98,297
Investment securities	**7,371,560**	**-146**	**7,371,414**
equity securities measured at fair value through other comprehensive income	85,480	-	85,480
debt securities measured at fair value through other comprehensive income	5,597,061	-	5,597,061
debt securities measured at amortised cost	153,634	-	153,634
debt securities measured at fair value through profit or loss	1,535,385	-146	1,535,239
Amounts due from clients	**13,090,308**	**-1,203,011**	**11,887,297**
Measured at amortised cost	13,030,489	-1,203,009	11,827,480
from institutional clients	9,230,196	-866,440	8,363,756
from retail clients	3,800,293	-336,569	3,463,724
Measured at fair value through profit or loss	25,514	-	25,514
from institutional clients	24,322	-	24,322
from retail clients	1,192	-	1,192
Other amounts due from clients	34,305	-2	34,303
Other financial assets*	**314,487**	**-10,796**	**303,691**

*\ Includes mainly cash surplus and amounts due from transactions in financial instruments.

Item	December 31st 2019		
	Gross carrying amount	Impairment losses	Maximum credit risk exposure
Amounts due from other banks	**166,770**	**-1,037**	**165,733**
Financial assets held for trading	**140,344**	**-**	**140,344**
equity securities	20,111	-	20,111
debt securities	44,534	-	44,534
derivative instruments	75,699	-	75,699
Investment securities	**5,302,185**	**-107**	**5,302,078**
equity securities measured at fair value through other comprehensive income	85,510	-	85,510
debt securities measured at fair value through other comprehensive income	3,839,184	-	3,839,184
debt securities measured at amortised cost	1,377,491	-107	1,377,384
Amounts due from clients	**13,174,807**	**-1,171,013**	**12,003,794**
Measured at amortised cost	13,132,205	-1,171,013	11,961,192
from institutional clients	9,305,104	-896,167	8,408,937
from retail clients	3,827,101	-274,846	3,552,255
Measured at fair value through profit or loss	38,285	-	38,285
from institutional clients	36,347	-	36,347
from retail clients	1,938	-	1,938
Other amounts due from clients	4,317	-	4,317
Other financial assets*	**172,664**	**-8,836**	**163,828**

*\ Includes mainly cash surplus and amounts due from transactions in financial instruments.

Credit risk exposures by category of contingent liabilities

Item	Maximum credit risk exposure December 31st 2020	Maximum credit risk exposure December 31st 2019
Contingent financial liabilities, including:	2,490,309	2,538,723
open lines of credit, including:	2,464,889	2,513,639
revocable	2,130,346	2,267,427
irrevocable	334,543	246,212
open import letters of credit	20,250	5,839
loan commitments, including:	5,170	19,245
irrevocable	5,170	19,245
Guarantees and sureties	372,847	308,145
Foreign exchange and interest rate transactions*	6,566,687	6,672,254

*\ In 2020, the items included:
Foreign exchange and currency derivative transactions of PLN 1,097,009 thousand
Interest rate derivative transactions of PLN 5,230,860 thousand
Interest rate swap transactions of PLN 258,000 thousand
*\ In 2019, the items included:
Foreign exchange and currency derivative transactions of PLN 1,227,723 thousand
Interest rate derivative transactions of PLN 4,997,978 thousand
Interest rate swap transactions of PLN 468,000 thousand

In accordance with the procedures in place at the Bank, contingent liabilities are subject to the same collateral and monitoring requirements as on-balance-sheet transactions.

The frequency of monitoring institutional clients (corporates) depends mainly on the size of credit exposure and the economic and financial standing of the client (rating).
Monitoring of institutional clients includes verification of:

1. rating of the client (including verification against selected external databases),
2. rating of the client's group,
3. assessment of the transaction (monitoring of collateral, contract terms (covenants) and project financed/co-financed by the Bank).

The frequency and scope of monitoring of institutional clients (micro-enterprises, housing communities) are dependent on the amount of exposure to the particular client.
Monitoring of micro-enterprises, housing communities includes:

1. monitoring of events subject to monitoring,
2. monitoring the economic and financial condition.

In the case of micro-enterprises, client verification against selected external databases is also performed.

5.1.8. Forbearance practices

The forbearance status is assigned to exposures where there has been a change in the contractual terms of the loan agreement, amounts due or investment measured at amortised cost if it results from:
1. the debtor's or the issuer's financial distress, or
2. where failure to amend the contractual terms would result in the exposure becoming non-performing, which would not have occurred had the debtor or the issuer not been in financial distress.

In particular, the following are considered forbearance facilities provided to clients:
1. payment holidays,
2. partial reduction of principal and / or partial waiver of incidental dues,
3. extension of the facility term,
4. reduced interest rate,
5. acceptance of non-performance of the contractual terms by the borrower the while the borrower fails to deliver financial projections,
6. the Bank's consent to sale or repossession of the collateral to repay the liability,
7. capitalisation of interest,
8. change of the debtor or the debt being taken over or acceded to by third parties.

If a forbearance agreement is property performed, the debt becomes a performing exposure.

Restructuring is an indication of impairment.

For individually significant exposures the conclusion of a forbearance agreement due the debtor being in financial distress, the exposure must be tested for impairment to determine whether an impairment loss should be recognised.

For individually non-significant exposures the conclusion of a forbearance agreement due the debtor being in financial distress, an impairment loss must be recognised for the exposure.

Reversal of an impairment loss (i.e., reclassification to a healthy portfolio) is possible after the indicator of impairment ceased to exist and a 12-month quarantine period has elapsed. Restructured transactions for which the evidence of impairment ceased to exist, the quarantine period in which the evidence of impairment was not identified has passed, and in relation to which no impairment is recognised are allocated to Bucket 2. For such exposures, expected losses are recognised for the remaining life of the exposure.

Restructuring agreements are monitored on an ongoing basis for compliance with the contractual terms.

An exposure ceases to be classified as forborne (the forbearance status is removed) when all of the following conditions are met:
1. a loan agreement is considered a non-risk where the exposure was reclassified from the at-risk category, after assessment of the debtor's financial standing, which has confirmed sustainable improvement of the debtor's financial condition,
2. at least 24 months (trial period) have elapsed from the date when the exposure was considered as not being at risk, and during at least half of the trial period the debtor made regular payments of principal and interest, with delays not exceeding 30 days,
3. at the end of the trial period, none of the exposures to the debtor is past due for more than 30 days.

The accounting policies for forborne financial assets do not differ from those applied to other assets of the Group. The Group measures forborne facilities and amounts due at amortised cost, using the effective interest rate method. Where the terms of a loan, an amount due or investment measured at amortised cost are renegotiated due to financial distress of the debtor or the issuer, such exposure is measured using the original effective interest rate determined prior to the provision of any forbearance facilities.

Below is presented the credit risk exposure to of individual forborne transactions (with respect to which forbearance facilities have been provided):

December 31st 2020	Impaired receivables			Unimpaired receivables		
	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure
Total amounts due from clients	**676,101**	**-419,801**	**256,300**	**89,461**	**-3,364**	**86,097**
Amounts due from retail clients, including:	171,682	-114,448	57,234	21,660	-1,607	20,053
individually measured\\	73,387	-37,024	36,363	-	-	-
Amounts due from institutional clients, including:	504,419	-305,353	199,066	67,801	-1,757	66,044
individually measured\\	493,661	- 296,334	197,327	-	-	-

December 31st 2019	Impaired receivables			Unimpaired receivables		
	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure
Total amounts due from clients	**699,791**	**-437,314**	**262,477**	**98,571**	**-4,047**	**94,524**
Amounts due from retail clients, including:	168,241	-108,208	60,033	24,771	-2,218	22,553
individually measured\\	60,806	-28,727	32,079	-	-	-
Amounts due from institutional clients, including:	531,550	-329,106	202,444	73,800	-1,829	71,971
individually measured\\	517,445	-317,368	200,077	-	-	-

*\ Amounts due from clients with indication of impairment but with no impairment identified given the estimated cash flows are measured using the group method.

5.1.9. Effects of a possible regulatory solution of the issue of housing loans denominated in CHF and in other foreign currencies

As of the date of issue of this report, the final form of amendments to legal regulations which would offer a unified solution to the issue of housing loans denominated in foreign currencies was unknown.

5.2. Financial risk in the bank book and the trading book, and risk limits

The financial risk in the Group is concentrated mainly at the Bank and at Dom Maklerski BOŚ S.A. and includes:

1. liquidity risk,
2. market risk, including:
   a. interest rate risk (in the banking book and the trading book);
   b. currency risk (primarily in the trading book; the banking book's currency risk is transferred to the trading book).
   c. other risks (general and specific risk of equity instruments, commodities risk and position risk in collective investment undertakings).

Liquidity risk and interest rate risk occur mainly at the Bank, and currency risk – at DM BOŚ S.A. (in the trading book and the non-trading book) and at the Bank (in the trading book; currency risk from the banking book is transferred to the trading book). DM BOŚ S.A. is also exposed to equity risk, commodity price risk and position risk at collective investment undertakings.

The key principles of financial risk management at Bank Ochrony Środowiska S.A. and at the Group are set out in the Banking Risk Management Strategy. This strategy is an integral part of the Bank's strategy.

The risk management system at the Group includes examination of individual risks related to both the Bank's and the Group's operations. The Bank, as the parent, oversees the risk management system at the Group. The risk management process is subject to periodic reviews aimed at adapting the process to changes in the environment and taking into account changes occurring within the Bank and the Group.

The Bank manages risks on the basis of the risk appetite and tolerance determined by the Supervisory Board using a set of internal limits. The Group has in place policies to manage liquidity risk, interest rate risk in the banking book and market risk in the trading book, which define, among other things, maximum levels of financial risk, consistent with the risk appetite adopted by the Supervisory Board of the Bank. Based on these, an early warning system has been established which focuses on identifying, measuring, monitoring, controlling and reporting the risks.

Transactions in the banking book represent the core business of the Bank, which means that they result from commercial operations, including raising financing and efficient management of financial liquidity. The banking book includes positions which are not included in the trading book, in particular:

a. granted credit facilities and guarantees, as well as accepted deposits, including term deposits,
b. liquidity- and interest-rate hedges of transactions carried in the banking book,
c. purchase of securities for non-trading purposes.

In line with the Group's strategy, the trading book business is complementary to the banking book business. The trading book contains transactions that were entered into by the Bank on its own account for trading purposes, i.e., to gain financial profits in short-term periods due to actual or expected differences between bid and offer prices in the market, as well as other movements of prices or price parities, including in particular interest rates and foreign exchange rates. Transactions held in the trading book are not sold for liquidity purposes. The purpose of the trading

book is to ensure the highest quality of services for clients. To this end, the Bank and Dom Maklerski BOŚ S.A. maintain open positions within the applicable risk limits.

The purpose of risk management by the Group is to maintain individual risks at the level consistent with the approved risk appetite and tolerance in order to protect the value of shareholders' capital, maintain the safety of client deposits and achieve adequate efficiency of the Group's operations, including ensuring the Group's ability to adapt its operations to changing market conditions, competence and commitment of managers and employees, and the quality of management information systems.

In 2020, the Group monitored the economic and market situation associated with the COVID-19 pandemic and analysed its impact on financial risks, including the market and liquidity risks. Although the levels of individual risks have increased compared to the pre-pandemic period, they have generally remained within the limits adopted by the Group.

In 2020, the main objectives, principles and organisation of the financial risk management process at the Group did not change. The level and profile of financial risk is monitored on a regular basis by the Financial and Operational Risk Department (2nd line of defence) of the Bank and by the Risk Management Department of DM BOŚ S.A. and reported to the Supervisory Board of the Bank, the Supervisory Board of DM BOŚ S.A., the Risk Committee (of the Supervisory Board), the Management Board of the Bank, the Management Board of DM BOŚ S.A., the ALCO Committee of the Bank, and the Liquidity and Market Risk ALCO Committee.

5.2.1. Liquidity risk

The purpose of liquidity management by the Group is to maintain the ability to finance assets and pay liabilities in a timely manner and to maintain a sustainable structure of assets and liabilities, which ensures a safe liquidity profile in specific time bands, split into liquidity in PLN and the main foreign currencies, but mostly – for the total liquidity position.

The liquidity risk management strategy and processes are tailored to the Bank's business profile and scale. The liquidity risk management strategy is set out in the Liquidity Strategy of BOŚ S.A. approved by the Supervisory Board. The strategy defines the Bank's risk appetite, designates key directions and quantitative targets for selected volumes, and is an integral part of the Bank's Framework Strategy. The liquidity risk tolerance, adjusted to the Bank's risk appetite through a system of internal limits and warning values, is set out in the Liquidity Management Policy approved by the Supervisory Board.

The structure and organization of the liquidity risk management function includes all levels of the Bank's organizational structure and operates within the three lines of defence. A particular role in the liquidity risk management process is played by the Management Board of the Bank and the ALCO Committee.

The Bank's liquidity is analysed over the following time horizons:

1. intra-day liquidity – during the day;
2. current liquidity – in the period up to 7 days;
3. short-term liquidity – in the period up to 1 month;
4. medium-term liquidity – in the period of above 1 month to 12 months;
5. long-term-term liquidity – in the period of more than 12 months.

To measure the liquidity and intra-day, current and short-term liquidity risk, the Bank uses the following measures and tools:

1. the level of intraday liquidity – reflects the level of funds required to be maintained in the Bank's account with the National Bank of Poland to enable the Bank to pay its liabilities during the day, in both normal and stress situations,
2. liquid assets (excess liquidity) – a buffer for expected and unexpected outflows over a period of 30 days,
3. liquidity reserve – which measures the level of liquid assets less expected and unexpected outflows, determined for a period of 30 days, including a concentration margin,
4. assessment of the stability of the deposit base,

5. short-term liquidity gap (for PLN, EUR, CHF and USD) – showing the level of mismatch in foreign currency funding structures; the gap consists primarily of flows from wholesale and derivatives transactions,
6. stress tests (which enable the Bank to, among other things, verify its ability to maintain liquidity in a defined time horizon under particular scenarios).

For the purpose of measuring liquidity as well as the medium- and long-term liquidity risk, the Bank sets and monitors:

1. the contractual and actual liquidity gap (which is supplemented by regular analyses of the stability of the deposit base, the concentration of the deposit base, the amount of loan prepayments and the level of deposit breakage),
2. the non-current assets to non-current liabilities ratio;
3. the coverage of loans used by client to finance long-term needs with the most stable sources of funding;
4. forecasts of the LCR, NSFR, liquid assets and long-term liquidity measures.

In order to assess the effectiveness of the liquidity risk management process, for most of the above measures, alert limits or values are set within a set of internal liquidity risk limits whose structure is hierarchical (i.e., they are set at the level of the Supervisory Board, the Management Board and the ALCO Committee). The limits and warning values in place are reviewed regularly so that liquidity can be monitored effectively. The limits and warning values define the framework for the Bank's liquidity tolerance and are consistent with the Bank's risk appetite. The shaping of an appropriate liquidity risk profile is supported by taking into account the cost of liquidity under the Bank's transfer pricing system.

The measures and tools used by the Bank are reviewed on a regular basis and are regularly updated to better map the liquidity profile. The process of monitoring liquidity and liquidity risk in the Bank is supported by a dedicated IT system (used in particular to generate reports on contractual and actual liquidity gaps, on regulatory liquidity measures and on internal limits, and to prepare mandatory reports). At least once a year, the Bank prepares a review of the Internal Liquidity Adequacy Assessment Process (ILAAP), in compliance with the EBA/GL/2016/10 Guidelines on ICAAP and ILAAP information collected for SREP (Supervisory Review and Evaluation Process) purposes. The ALCO Committee gives its opinion on the review, and the document requires approval by the Management Board and the Supervisory Board of the Bank. The ILAAP review carried out by the Bank as at December 31st 2020 showed compliance of the process with the Bank's internal regulations and external guidelines.

Liquidity risk reports are presented to all the Bank's units involved in the liquidity risk management process. Results of the risk analysis, the degree of utilization of regulatory standards and internal limits, as well as results of stress tests are presented in reports prepared for the ALCO Committee (on a weekly basis), for the Management Board and the ALCO Committee (on a monthly basis), and for the Supervisory Board and its Risk Committee (on a quarterly basis). The reports are part of the Management Information System the purpose of which is to support the Bank's management, streamline the performance of its tasks and ensure the safety and stability of its operations.

Overall liquidity risk profile

The main source of funding for the Bank continues to be a systematically built and diversified deposit base with a considerable share of stable retail deposits (supplemented by deposits from corporate clients and the public sector), followed by loans from international financial institutions (which, together with long-term bilateral interest rate swap agreements secured by debt papers and FX swap transactions, constitute a source of liquidity funding in foreign currencies). The Bank monitors the risk of concentration of the deposit base on an ongoing basis. The internal liquidity measures take into account an additional concentration surcharge on stable funds, calculated on the basis of deposit balances for large deposits and deposits of large clients (classified in accordance with the definitions applied at the Bank).

The Bank's liquid assets (excess liquidity) are primarily held in the form of highly liquid NBP bills (as at December 31st 2020, representing 45% of the liquid portfolio of unsecured securities) and Treasury bonds (December 31st 2020: 55%), posing a low specific risk. The portfolio of these securities is supplemented with cash and funds held with the National Bank of Poland (above the declared obligatory reserves) and in nostro accounts with other banks. As at 31 December 2020, the amount of liquid assets was PLN 5,257m. Liquid assets constitute a buffer to secure liquidity in potential crisis situations, i.e., they can be pledged, liquidated under repo transactions or sold at any time without

significant loss of value. The Bank’s ability to sell liquid assets (product liquidity risk) is monitored on a regular basis. The primary considerations in these analyses are issue size, market turnover, and bid/ask price volatility.

In accordance with the recommendations of the Polish Financial Supervision Authority and the National Bank of Poland, the Bank may use additional sources of funding in the form of a technical loan and a lombard loan from the NBP and, exceptionally, it may apply for a refinancing facility from the NBP.

The Bank determines internal capital for liquidity risk, which is considered a significant constant risk, in accordance with the applicable internal capital estimation process. This capital is estimated on the basis of the cost of restoring regulatory and internal measures and liquidity limits under the conditions of stress test scenarios.

Measures of liquidity risk

The Bank determines supervisory measures of liquidity in accordance with the following regulations: Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26th 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and Delegated and Execution Regulations referring to the Regulation with regard to liquidity and Resolution No. 386/2008 of Polish Financial Supervision Authority of December 17th 2008 on setting liquidity standards for banks.

The currently applicable norms regarding short-term liquidity include the liquidity coverage requirement – LCR (the ratio of liquid assets to net outflows (i.e., the difference between net outflows and net inflows) for a 30-day period of extreme conditions). The LCR is calculated on an aggregated basis for all currencies (translated into PLN) and separately for significant currencies, i.e., for PLN and EUR. For the ratio in EUR, the Bank identifies a currency mismatch related to the method of financing long-term loans granted in this currency.

In accordance with EBA/GL/2017/01 Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013, the Bank presents quantitative and qualitative data on the liquidity coverage ratio in the Information on BOŚ Group, disclosed in accordance with part eight of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 “Disclosure by Institutions”. Such disclosures comply with the instructions given by the European Banking Authority.

The long-term standards include the following ratios: M3 (ratio of coverage of non-liquid assets with equity) and M4 (ratio of coverage of non-liquid assets and assets with limited liquidity with equity and stable external funds). The Bank calculates the Net Stable Funding Ratio (NSFR) and reports it the Polish Financial Supervision Authority and the National Bank of Poland; the Bank has an internal warning value for this indicator at the level of the target supervisory limit, i.e., 100%. As at December 31st 2020 the value of the ratio was 106%. In addition, in accordance with Commission Implementing Regulation (EU) 2016/313 of March 1st 2016 amending Implementing Regulation (EU) No 680/2014 with regard to additional monitoring metrics for liquidity reporting to the National Bank of Poland as part of mandatory reporting, the Bank prepares and submits ALMM reports.

Pursuant to Resolution No 386/2008 of the Financial Supervision Authority, the Bank also performs an in-depth analysis of its long-term liquidity. Results of these analyses are used to manage the Bank's liquidity. At the same time, the process of preparing short- and long-term financial plans of the Group includes assessment of liquidity, to ensure an adequate financing structure and compliance with the supervisory liquidity measures.

In 2020, as in 2019, the supervisory liquidity measures, i.e., LCR and M3-M4, were calculated daily (i.e., every working day), and remained at a safe level, significantly above the regulatory levels. As at 31 December 2020, these measures were as follows:

Measure	December 31st 2020	December 31st 2019
LCR	158%	131%
M3	62.01	81.26
M4	1.43	1.30

The Bank has in place an Emergency Liquidity Action Plan approved by the Management Board, which sets out

potential sources of deterioration/loss of liquidity, rules of conduct and contingency powers. It is intended to estimate the survival horizon as well as the ability and costs of restoring stable liquidity. This plan, in addition to a scenario analysis of liquidity in contingencies (the assumptions of which are consistent with the stress tests performed), also includes measurable and non-measurable symptoms ahead of contingencies, allowing for systematic monitoring of the sources of liquidity crises.

The contingency liquidity scenario analyses and stress tests include three types of scenarios:

1. internal crisis – its source is the loss of confidence in the Bank by market participants ("run on the Bank"), reduced availability of financing, materialisation of concentration risk and downgrading of the Bank's rating,
2. external crisis – assumes materialization of currency risk, rising interest rates, crisis in financial markets and possible second round effects,
3. mixed crisis – a combination of elements of both internal and external crises.

The stress tests enable the Bank to identify factors whose materialisation may generate liquidity risk and to develop actions necessary to be taken in the event of a crisis situation.

As part of its analysis, the Bank also carries out a sensitivity analysis for individual factors generating liquidity risk, as well as reverse tests. The contingency liquidity plan shall be regularly reviewed and updated so as to ensure that the Bank is operationally prepared to activate potential measures that can be taken in the event of a liquidity risk. The contingency liquidity scenario analysis is carried out a semi-annual basis and stress tests – on a monthly basis. The assumptions adopted for stress tests are regularly reviewed to account for conclusions of the scenario-based analysis contingency liquidity analysis. Conclusions from the tests are used in managing liquidity and liquidity risk and are the basis for building the structure of assets and liabilities.

In its analyses, the Bank also takes into account the possibility of unfavourable changes in foreign exchange rates, in particular CHF and EUR, potentially triggering increased liquidity needs.

In accordance with annexes to the credit support master agreements with counterparties ((Credit Support Annex, CSA) and Credit Support Annex for Variation Margin (CSA VM)) the Bank, in case of adverse market changes (i.e., adverse movements in exchange rates), is obliged to provide additional variation margin, in accordance with position measurement. In case of favourable market movements, the Bank receives variation margin from the counterparties. The master agreements and annexes executed by the Bank do not contain any clauses which would trigger changes in margin amounts due to a change in the Bank's credit rating. This means that any rating downgrade would not affect the amount and method of calculating the variation margins.

The stress tests performed in 2020, as in 2019, show that the Bank has a stable liquidity position and its liquid assets (excess liquidity) allow it to survive the assumed stress scenarios in which the Bank assumes a survival over a certain period of time.

In 2020, as in 2019, the Group's liquidity position was monitored on a regular basis and remained safe.

The tables below present the adjusted liquidity gap (carrying amounts):

December 31st 2020	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Liquidity gap ratio	3.75	2.14	1.46	1.14	0.99	1.00	
Total assets	5,678,616	515,710	480,346	1,085,996	6,334,285	6,410,877	**20,505,829**
of which amounts due from clients	98,711	393,123	479,350	1,048,561	5,189,912	4,677,640	**11,887,297**
Total liabilities	1,514,285	1,378,604	1,665,911	2,232,315	7,492,231	6,222,482	**20,505,829**
of which amounts due to clients	969,814	1,220,167	1,403,460	2,126,290	6,790,400	4,050,583	**16,560,715**
Gap	4,164,331	-862,894	-1,185,565	-1,146,319	-1,157,946	188,394	-
Accumulated gap	4,164,331	3,301,436	2,115,871	969,552	-188,394	-	-

December 31st 2019	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Liquidity gap ratio	2.75	1.63	1.17	0.92	0.87	1.00	
Total assets	3,650,856	427,684	508,154	1,091,424	6,245,052	6,563,827	**18,486,997**
of which amounts due from clients	102,363	316,067	502,732	1,015,861	5,262,754	4,804,017	**12,003,794**
Total liabilities	1,326,971	1,171,816	1,429,101	2,239,257	7,478,520	4,841,332	**18,486,997**
of which amounts due to clients	992,940	1,106,625	1,291,615	2,122,847	6,784,833	2,616,121	**14,914,981**
Gap	2,323,885	-744,132	-920,947	-1,147,833	-1,233,468	1,722,495	-
Accumulated gap	2,323,885	1,579,752	658,805	-489,028	-1,722,495	-	-

Derivative instrument cash flows (gross settlements)

The table below presents the maturities of derivative instruments by contractual terms as at December 31st 2020 and December 31st 2019 (undiscounted amounts):

December 31st 2020	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Inflows, including:	**663,217**	**113,751**	**155,291**	**140,541**	**154,324**	**1,227,124**
FX forward	94,734	19,658	20,345	51,098	33,118	218,953
FX Spot	186,468	-	-	-	-	186,468
FX Swap	375,620	88,476	129,386	65,664	32,442	691,588
IRS	6,395	5,617	5,560	23,779	88,764	130,115
Outflows, including:	**670,163**	**117,586**	**162,578**	**139,441**	**152,237**	**1,242,005**
FX forward	94,191	19,838	20,863	50,240	32,668	217,800
FX Spot	186,371	-	-	-	-	186,371
FX Swap	382,261	90,949	132,131	66,767	32,833	704,941
IRS	7,340	6,799	9,584	22,434	86,736	132,893

December 31st 2019	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Inflows, including:	**463,507**	**255,003**	**244,865**	**314,277**	**134,822**	**1,412,474**
FX forward	48,870	41,189	8,822	18,031	17,095	134,007
FX Spot	210,983	-	-	-	-	210,983
FX Swap	197,183	207,543	225,444	252,563	-	882,733
IRS	6,471	6,271	10,599	43,683	117,727	184,751
Outflows, including:	**463,183**	**255,128**	**240,049**	**301,324**	**139,166**	**1,398,850**
FX forward	48,405	40,818	8,708	18,575	17,810	134,316
FX Spot	210,979	-	-	-	-	210,979
FX Swap	195,512	205,781	219,294	245,057	-	865,644
IRS	8,287	8,529	12,047	37,692	121,356	187,911

Derivative instrument cash flows (net settlements)

December 31st 2020	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Inflows, including:	**104**	**754**	**21**	**19,416**	**-**	**20,295**
Forward contracts	104	754	21	14	-	893
Forward contracts	-	-	-	-	-	-
CFD	-	-	-	19,402	-	19,402
Outflows, including:	**38**	**1,044**	**60**	**3,972**	**-**	**5,114**
Forward contracts	3	953	45	3	-	1,004
Forward contracts	35	91	15	-	-	141
CFD	-	-	-	3,969	-	3,969

December 31st 2019	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Inflows, including:	**73**	**179**	**71**	**19,862**	**-**	**20,185**
Forward contracts	12	97	4	-	-	113
Forward contracts	61	82	67	-	-	210
CFD	-	-	-	19,862	-	19,862
Outflows, including:	**71**	**761**	**53**	**1,300**	**-**	**2,185**
Forward contracts	31	691	51	-	-	773
Forward contracts	40	70	2	-	-	112
CFD	-	-	-	1,300	-	1,300

5.2.2. Interest rate risk

Interest rate risk is understood as a potential negative impact of changes in interest rates on the projected financial result, economic value of equity and present value of debt securities held. The interest rate risk is primarily generated in the Bank, both in the banking book and the trading book.

Interest rate risk in the banking book

The main purpose of interest rate risk management in the banking book is to seek stabilization and optimization of net interest income ('NII') while limiting the negative effect of market interest rate movements on economic value of equity ('EVE').

To achieve this, the Bank uses two tools: the investment portfolio held, and derivative transactions entered into as part of hedge accounting. The investment portfolio, built in the banking book, should help to, among others, secure net interest income generated by the Bank's equity and to secure core deposits in current accounts insensitive to interest rate movements. On the other hand, this portfolio is a source of volatility of the revaluation reserve.

The Bank applies fair value hedge accounting. Its purpose is to secure the fair value of the fixed-rate Treasury bonds, which are part of the HtC&S bond portfolio and also serve as the Bank's liquidity buffer. IRS hedging transactions reduce the extent of capital fluctuations caused by movements in interest rates.

Monitoring of interest rate risk in the banking book is supported by a dedicated IT system which the Bank uses in particular to determine/perform:

1. repricing gap, presenting the values of assets, liabilities and on-balance-sheet items sensitive to interest rate movements at maturity or repricing,
2. simulation of net interest income – a dynamic analysis reflecting the projection of net interest income over a given period of time, based on the Bank's growth scenarios, as well as assumptions regarding market factors,
3. net present value (NPV) simulation, presenting values of all cash flows discounted at given market parameters; results of the NPV analysis are used to calculate EVE,
4. price shocks for basis risk analysis, the purpose of which is to estimate the impact on the net interest income of varying changes in interest rates of products whose interest rates are based on different base rates,
5. yield curve risk analysis, which aims to estimate the impact on the economic value of equity of unparallel movements in the shape of the yield curve,
6. customer option risk analysis, whose objective is to assess the impact of customer options embedded in interest bearing products on the Bank's financial result,
7. stress tests, including reverse tests and the Supervisory Outlier Test – the objective is to determine how extreme changes in market factors affect the net interest income and the economic value of equity,
8. the level of internal capital for interest rate risk in the banking book.

Measures of interest rate risk in the banking book

In order to control the interest rate risk in the banking book, the Bank uses two measures: sensitivity of net interest income to interest rate movements by +/-100 bps (NII) and sensitivity of the economic value of capital to interest rate movements by +/-200 bps (EVE). Interest rate risk in the banking book is measured on the basis of product characteristics (capital flow schedules, interest rate re-pricing, embedded options), resulting from contracts with counterparties. For current products where the client may flexibly determine, among other things, the repayment schedule or use of funds, the Bank builds replicating portfolios that reflect the economic timing of capital flows. In the replicating portfolios, the average maturity of deposits with undetermined maturity is 6 months, and the maximum maturity is 12 months. The Bank also takes into consideration client behaviour patterns, such as: early credit repayment levels or deposit breakage levels, which are estimated in accordance with internal regulations of the Bank. The assumptions are consistent with the EBA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading book activities.

The following table provides a comparison of the NII and EVE measures between December 31st 2020 and December 31st 2019:

Date	ΔNII		ΔEVE	
	-100 bps	+100 bps	-200 bps	+200 bps
December 31st 2020	-95,408	39,378	67,413	-98,089
December 31st 2019	-43,737	33,718	29,975	-66,589
Change	**-51,671**	**5,660**	**37,433**	**-31,496**

In the first half of 2020, both NII and EVE were within limit/at warning levels consistent with the risk appetite approved by the Supervisory Board. Changes in the values of these measures have a certain cyclical nature, which is due to the regular approximation of the timing of the repricing of floating rate positions and the maturity of fixed rate positions. The increased sensitivity of net interest income in 2020 was caused by the three interest rate cuts by the Monetary Policy Council to counteract the negative economic effects of the COVID-19 pandemic, resulting in the Bank's decision to reduce interest rates on term deposits and savings accounts. The asymmetrical impact of interest rate movements on NII in the scenarios of falling and rising interest rates results from the characteristics of interest rates on specific items sensitive to interest rate movements, including reduction of interest rates on certain sources of financing to 0%, under the conditions of the analysed market interest rate movements (i.e., by -100 bps). Following the reduction of interest rates on term deposits and savings accounts and the higher utilisation of the NII limit, the impact of changes in the environment, the structure of the Bank's balance sheet and the product offering on the sensitivity of NII is monitored on an ongoing basis.

In accordance with the Guideline EBA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading book activities the Bank is obliged to carry out a Supervisory Outlier Test (SOT).

Results of (SOT) for the six standard shock scenarios specified in the Guidelines are presented in the table below.

Date	ΔEVE in a given SOT scenario					
	parallel shock up	parallel shock down	steepener shock	flattener shock	short rates shock up	short rates shock down
December 31st 2020	-102,510	35,478	-2,987	-64,288	-94,813	3,316
December 31st 2019	-53,584	17,877	7,251	-37,277	-52,785	12,520
Change	**-48,926**	**17,601**	**-10,238**	**-27,011**	**-42,028**	**-9,204**

The results of the SOT analysis indicate that the Bank is most vulnerable to a decline in the economic value of equity (EVE) in the parallel shock up scenario. Despite an increase in the sensitivity of the economic value of equity between December 2019 and December 2020, the level of this measure is clearly below supervisory warning values, indicating moderate exposure of the Bank to interest rate risk.

Once a month, the Bank conducts stress testing analysis, examining the development of the interest rate risk in the banking and trading book in case of materialisation of extreme changes in risk factors. In the bank book, the Bank examines the impact of these scenarios on the following elements:

1. sensitivity of the net interest income (NII):
   - scenarios of parallel shifts of interest rate curves within the range of [-500 bps, +500 bps],
   - scenarios of exchange rate movements by ±5%, ±10% and ±25%,
   - scenarios of cumulative changes in the parallel shifts of interest rate curves by ±100 bps and ±500 bps, and foreign exchange rates by ±5%, ±10% and ±25%,
2. sensitivity of the economic value of equity (EVE):
   - scenarios of parallel shifts of interest rate curves within the range of [-500 bps, +500 bps],
   - scenarios of exchange rate movements by ±5%, ±10% and ±25%,
   - scenarios of cumulative changes in the parallel shifts of interest rate curves by ±200 bps and ±500 bps, and foreign exchange rates by ±5%, ±10% and ±25%,
3. sensitivity of revaluation reserve in scenarios of interest rates movements within the range [-500 p.b., +500 p.b.],
4. sensitivity of the present value of the bond portfolio in scenarios of interest rate movements within the range of [-500 bps, +500 bps] – by issuer (SP&NBP (excluding FVH), corporations, local governments) and by portfolio (H2C&S (excluding FVH), H2C).

The Bank also conducts reverse tests:
1. for the EVE – tests of the impact of changes in market factors, the purpose of which is to show when the sensitivity of the EVE falls below 20% of equity,
2. for the NII:
   - tests to show when the projected interest income falls below zero,
   - tests designed to identify areas of vulnerability to risks arising from collateral and risk management strategies and behavioural responses of clients.

The results of the stress test as at December 31st 2020 show that, in extremely adverse market conditions and the Bank's increased exposure to instruments sensitive to interest rate risk, the banking book risk remained at a safe level.

Given the nature of the Bank's business and the structure of its securities portfolio, the interest rate risk in the banking book is consistently significant. The Bank, as part of the ICAAP process, estimates internal capital for this risk. In accordance with supervisory and internal regulations, internal capital for interest rate risk in the banking book refers to both potential changes in the economic value of equity and net interest income due to adverse movements of interest rates and is adjusted to the structure and nature of the Bank's business.

In order to hedge the interest rate risk of 10-year fixed-rate PLN 150m BGK bonds (issued to the COVID-19 Fund and guaranteed by the State Treasury) held within the HtC&S business model, as of July 2020 the Bank applies the option of measurement at fair value through profit or loss (the FVPL option). The related IRS hedging transactions enable the Bank to change interest on the bonds accrued at a fixed interest rate into interest accrued at WIBOR 6M plus margin, which hedges the Bank's position against adverse effects of potential increase in market interest rates.

Results of monitoring the banking book interest rate risk are presented in weekly reports prepared for the Liquidity and Market Risk ALCO Committee, in monthly reports prepared for the Assets and Liabilities Committee and the Management Board, and in quarterly reports prepared for the Risk Committee and the Supervisory Board (quarterly).

Interest rate risk in the trading book

The objective of interest rate risk management in the trading book is to achieve a financial result in this line of business in keeping with the financial plan, at an acceptable level of exposure of the Bank to the risk, and to minimise the adverse effects of holding interest rate-sensitive instruments in the trading book.

Measures of interest rate risk in the trading book

In order to monitor the interest rate risk, the Bank uses:
1. the value at risk (VaR) model determined for the 99% confidence level based on daily volatility of interest rates for 250 business days preceding the date of analysis,
2. the basis point value (BPV), i.e., sensitivity of securities and derivative instruments generating the interest rate risk to a 1 pp movement of interest rates),
3. a system of limits,
4. stress tests.

In 2020, there were no significant changes in the techniques applied to measure the interest rate risk of the Bank's trading book.

The value of interest rate VaR in the trading book and the impact of the stress test scenario – parallel movement of IRS and BOND yield curves by ±200 bps – on the Bank's profit or loss in annual periods are presented below (maximum, minimum, mean and as at the reporting date).

Date	10-day VaR				Stress tests ±200 bps
	mean	max	min	as at	as at
December 31st 2020	521	1,511	55	68	-1,387
December 31st 2019	422	612	177	355	-2,389

In order to verify the value-at-risk model, the Bank performs a back-testing analysis on a monthly basis, calculated by comparing the maximum losses from the VaR model with actual gains and losses and theoretical changes in profit or loss resulting from revaluation of positions. Results of monthly back-testing are presented in management reports.

The system of interest rate risk limits in the trading book includes:

1. the 10-day VaR limit,
2. the BPV limit for instruments generating interest rate risk in the trading book, both intra-day and end-of-day, separately for positions in debt securities and for IRS, and combined for these instruments,
3. maximum, two-day and monthly trailing loss limits for assets in the trading book.

The utilisation of each limit is calculated and monitored as at each business day, and for BPV limits – also during the day, and reported to the management on a regular basis.

Once a month, the Bank conducts stress testing analysis, examining the development of the interest rate risk in the banking and trading book in case of materialisation of extreme changes in risk factors.
In the trading book, the Bank examines the impact of extreme adverse movements of market interest rates on the Bank's profit or loss as well as the volatility of interest rates over 250 business days and the correlation between the interest rate volatility and VaR using both the historical and parametric methods. The historical method took into account the volatility of interest rates caused by the COVID-19 pandemic.

The Bank uses the following scenarios to analyse the impact of stress:

1. historical:
   - parallel movements of the yield curves (including fat tails and spread),
   - curvature of the yield curves,
   - changes in the slope of yield curves,
2. parametric:
   - parallel movement of the yield curves,
   - increase in interest rate volatility,
   - extremely adverse changes in the correlation of interest rates.

Stress test scenarios are also run for market liquidity changes and for situations where positions cannot be closed.

Results of the analysis show that in the event of extremely adverse market conditions and the Bank's increased exposure to instruments sensitive to the interest rate risk both the Bank's banking and trading positions are maintained at a safe level.

Results of monitoring the interest rate risk in the banking book and the trading book are reported: weekly to the Liquidity and Market Risk ALCO Committee, monthly to the ALCO Committee and the Management Board, and quarterly to the Risk Committee and the Supervisory Board (with the results of the stress tests). Additionally, results of the analysis of interest rate risk in the trading book are communicated to members of the Management Board and the ALCO Committee as part of daily reports.

The three rate cuts by the Monetary Policy Council made in response to the COVID-19 pandemic did not lead to any material increase in the interest rate risk of the trading book. The measures of interest rate risk in the trading book were monitored on an ongoing basis, and although their levels generally increased, they remained within the limits

applied by the Bank. The interest rate cuts had an adverse effect on profit or loss from interest rate transactions in the trading book due to a decrease in the fair value of IRS transactions in this portfolio.

Derivative financial instruments

The following tables set out the decomposition of derivatives into underlying instruments in order to present their sensitivity to movements of rate movements (notional amounts).

December 31st 2020	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Assets						
FX forward	94,734	19,658	20,345	51,098	33,118	218,953
FX Spot	186,468	-	-	-	-	186,468
FX Swap	375,620	88,476	129,386	65,664	32,442	691,588
IRS	1,013,802	1,153,291	1,234,460	518,980	1,549,147	5,469,680
Forward contracts	567	38,973	1,532	267	-	41,339
Forward contracts	1,368	4,784	457	-	-	6,609
CFD	-	-	-	197,269	-	197,269
Total	**1,672,559**	**1,305,182**	**1,386,180**	**833,278**	**1,614,707**	**6,811,906**
Equity and liabilities						
FX forward	94,191	19,838	20,863	50,240	32,668	217,800
FX Spot	186,371	-	-	-	-	186,371
FX Swap	382,261	90,949	132,131	66,767	32,833	704,941
IRS	753,801	1,048,843	1,232,753	421,000	2,013,280	5,469,677
Forward contracts	3,579	37,127	703	574	-	41,983
Forward contracts	-	-	746	-	-	746
CFD	-	-	-	339,354	-	339,354
Total	**1,420,203**	**1,196,757**	**1,387,196**	**877,935**	**2,078,781**	**6,960,872**
Balance	**252,356**	**108,425**	**-1,016**	**-44,657**	**-464,074**	**-**

December 31st 2019	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Assets						
FX forward	48,870	41,189	8,822	18,031	17,095	134,007
FX Spot	210,983	-	-	-	-	210,983
FX Swap	197,183	207,543	225,444	252,563	-	882,733
IRS	1,049,122	685,219	1,292,787	829,321	1,588,082	5,444,531
Futures contracts	-	96,356	447	-	-	96,803
Forward contracts	6,860	8,334	4,172	-	-	19,366
CFD	-	-	-	229,039	-	229,039
Total	**1,513,018**	**1,038,641**	**1,531,672**	**1,328,954**	**1,605,177**	**7,017,462**
Equity and liabilities						
FX forward	48,405	40,818	8,708	18,575	17,810	134,316
FX Spot	210,979	-	-	-	-	210,979
FX Swap	195,512	205,781	219,294	245,057	-	865,644
IRS	401,121	818,778	1,319,004	873,797	2,031,831	5,444,531
Futures contracts	8,365	7,430	4,285	-	-	20,080
Forward contracts	-	5,751	322	-	-	6,073
CFD	-	-	-	436,308	-	436,308
Total	**864,382**	**1,078,558**	**1,551,613**	**1,573,737**	**2,049,641**	**7,117,931**
Balance	**648,636**	**-39,917**	**-19,941**	**-244,783**	**-444,464**	

5.2.3. Currency risks

Currency risk is understood as the risk of loss to the Group due to changes in exchange rates. This risk is generated by DM BOŚ S.A. (in the trading and non-trading book) and in the Bank (mainly in the trading book).

The objective of the Bank's currency risk management policy for the banking book is to not maintain open individual positions. Foreign currency exposures arising in the banking book are transferred systematically to the trading book on the same day or on the following business day at the latest.

The Bank's main currency positions are denominated in PLN, USD, EUR and CHF.

The currency risk in DM BOŚ S.A.'s non-trading book is attributable to deposits of foreign currency cash in the accounts of foreign brokers who buy and sell financial instruments on foreign exchanges on behalf of DM BOŚ clients. The currency risk in the non-trading book is also implied by positions related to the operations of DM BOŚ S.A. conducted by the Branch in the Czech Republic, which are not included in the trading book. DM BOŚ S.A. has open currency positions in USD, EUR and CZK in the non-trading book, and the currency risk in this portfolio is managed within the limit of the total currency position for the trading book and the non-trading book.

A currency position resulting from transactions in the banking book which has not been transferred on a given day to the trading book is controlled with end-of-day limits of open currency positions in the banking book.

Currency risk in the trading book is generated by both the Bank and DM BOŚ S.A. The currency risk in the trading book was primarily attributable to DM BOŚ S.A., and to a lesser extent to the Bank. Open currency positions in DM

BOŚ S.A.'s trading book result from the provision of services to clients in the derivatives trading market and from the provision of services on a regulated market.

The BOŚ Group has a consistent currency risk management system, with the risk calculated separately for the Bank and DM BOŚ S.A.

Measures of currency risk

In order to monitor the currency risk of open foreign exchange positions (on- and off-balance-sheet) in the trading book of the Bank, the following measures are used:

1. the value at risk (VaR) model determined for the 99% confidence level based on daily volatility of foreign exchange rates for 250 business days preceding the date of analysis,
2. a system of limits,
3. stress testing.

The value of foreign exchange VaR in the trading book of the Bank and of the Group and the impact of the stress test scenario – a 30% decline in the exchange rates of all currencies in relation to PLN – on the Group's profit or loss in annual periods are presented below (maximum, minimum, mean and as at the reporting date).

Date	10-day VaR						Stress tests of the Group – increase/decrease of foreign exchange
	Bank		DM		Group		
	mean	max	min	as at	as at	as at	as at
December 31st 2020	230	966	8	259	2,498	2,756	-7,127
December 31st 2019	213	575	5	133	3,804	3,767	-25,289

In order to verify the value-at-risk model, the Group performs a back-testing analysis on a monthly basis, calculated by comparing the maximum losses from the VaR model with actual gains and losses and theoretical changes in profit or loss resulting from revaluation of positions. Results of monthly back-testing are presented in management reports.

The system of foreign exchange risk limits in the trading book includes:

1. the 10-day VaR limit,
2. limits on the amount per total position and per individual position for the main currencies, both intra-day and end-of-day,
3. daily and monthly trailing loss limits for currency exchange transactions.

Utilisation of the limits is monitored every business day, and for total position and individual limits in the Bank's main currencies – also during the day. During the day, the Bank also monitors additional limits for client transactions, within the amount limits for foreign exchange positions. formation on the utilisation of individual limits is regularly reported to the Bank's management.

Analyses show that the Group's foreign exchange risk during the reporting period remained moderate.

Once a month, the Bank conducts stress testing analysis, examining the development of the currency risk in the banking and trading book in case of materialisation of extreme changes in risk factors. The Bank tests mainly the impact of extremely unfavourable movements in the exchange rates against PLN and cross currency pairs EUR/USD and EUR/CHF on gain (loss) on foreign exchange transactions and changes in volatility of exchange rates during the 250-business-day period and correlation between the volatility and the level of VaR, using both the historical and parametric methods. The historical method took into account the volatility of foreign exchange rates caused by the COVID-19 pandemic.

The Bank uses the following scenarios to analyse the impact of stress:

1. historical:
   - historical increase/decrease in foreign exchange rates against PLN (including fat tails),

- Increase/decrease in cross currency EUR/CHF and EUR/USD rates,

2. parametric:
- a 30% increase/decrease in foreign exchange rates against PLN,
- increase in volatility of foreign exchange rates,
- extremely adverse changes in the correlation of foreign exchange rates.

Stress test scenarios are also run for market liquidity changes and for situations where positions cannot be closed.

Results of the stress test analysis show that under extremely unfavourable market conditions and increased exposures, the Bank's foreign exchange risk remains at a safe level.

Results of monitoring the currency risk in the trading book are reported: daily to members of the Management Board and the Alco Committee, weekly to the Liquidity and Market Risk ALCO Committee, monthly to the ALCO Committee and the Management Board, and quarterly to the Risk Committee and the Supervisory Board.

The volatility of exchange rates caused by the COVID-19 pandemic did not significantly increase the level of currency risk. The measures of currency risk were monitored on an ongoing basis, and although their levels generally increased, they remained within the limits applied by the Bank.

Open foreign exchange positions as at December 31st 2020 and December 31st 2019 are presented below.

Currency risk (net carrying amounts)

December 31st 2020	PLN	EUR	USD	CHF	Other currenc	Total
Assets						
Cash and balances at central bank	253,171	12,309	721	195	156	266,552
Amounts due from banks	50,976	63,747	14,476	1,446	24,971	155,616
Financial assets held for trading, including:	95,637	5,133	11,366	-	999	113,134
equity securities	14,032	-	-	-	-	14,032
debt securities	805	-	-	-	-	805
derivative instruments	80,800	5,133	11,366	-	999	98,297
Investment securities, including:	7,371,414	-	-	-	-	7,371,414
equity securities measured at fair value through other comprehensive income	85,480	-	-	-	-	85,480
debt securities measured at fair value through other comprehensive income	5,597,061	-	-	-	-	5,597,061
debt securities measured at amortised cost	1,535,239	-	-	-	-	1,535,239
debt securities measured at fair value through profit or loss	153,634	-	-	-	-	153,634
Amounts due from clients	9,080,574	1,805,130	128,972	872,593	28	11,887,297
Other assets*\	696,880	4,903	8,875	870	288	711,816
Total assets	**17,548,652**	**1,891,222**	**164,410**	**875,104**	**26,442**	**20,505,829**
Off-balance sheet items constituting foreign currency item		**359,294**	**354,438**	**31,724**	**77,662**	

*\ The item includes intangible assets, property, plant and equipment, income tax assets and other assets

Liabilities						
Amounts due to central bank and other banks	822	240,999	677	490,245	-	732,743
Financial liabilities held for trading	98,539	216	4,331	-	230	103,316
Derivative hedging instruments	24,497	-	-	-	-	24,497
Amounts due to clients	14,821,977	1,417,011	211,603	61,110	49,014	16,560,715
Subordinated liabilities	368,996	-	-	-	-	368,996
Provisions	171,427	2,076	1,274	-	-	174,777
Other liabilities	373,809	7,940	1,890	5	214	383,858
Total liabilities	15,860,067	1,668,242	219,775	551,360	49,458	18,348,902
Off-balance sheet items constituting foreign currency item		**557,392**	**339,457**	**368,896**	**73,587**	
On-balance sheet item		**222,980**	**-55,365**	**323,744**	**-23,016**	
Off-balance sheet item		**-198,098**	**14,981**	**-337,172**	**4,075**	
Group's open currency position		**24,882**	**-40,385**	**-13,428**	**-18,941**	

December 31st 2019	PLN	EUR	USD	CHF	Other currenci	Total
Assets						
Cash and balances at central bank	289,140	7,347	593	451	335	297,866
Amounts due from banks	32,485	82,055	20,910	5,693	24,590	165,733
Securities held for trading	64,488	135	22	-	-	64,645
Derivative financial instruments	56,096	4,344	14,546	-	713	75,699
Amounts due from clients	9,161,456	1,782,316	154,731	905,289	2	12,003,794
Investment securities, including:	5,302,078	-	-	-	-	5,302,078
debt securities measured at fair value through other comprehensive income	3,839,184	-	-	-	-	3,839,184
debt securities measured at amortised cost	1,377,384	-	-	-	-	1,377,384
equity securities measured at fair value through other comprehensive income	85,510	-	-	-	-	85,510
Other assets*\	570,511	1,892	3,084	848	847	577,182
Total assets	**15,476,254**	**1,878,089**	**193,886**	**912,281**	**26,487**	**18,486,997**
Off-balance sheet items constituting foreign currency item		**304,775**	**267,090**	**13,781**	**98,297**	

*\ The item includes intangible assets, property, plant and equipment, income tax assets and other assets

Liabilities						
Amounts due to central bank and other banks	39,744	73,832	608	481,483	-	595,667
Amounts due to clients	13,366,497	1,282,305	159,877	65,790	40,512	14,914,981
Derivative financial instruments	49,208	123	1,273	-	322	50,926

Derivative hedging instruments	16,869	-	-	-	-	16,869
Subordinated liabilities	370,731	-	-	-	-	370,731
Provisions	55,447	2,185	73	-	-	57,705
Other liabilities	265,610	7,646	5,874	-	1,058	280,188
Total liabilities	**14,164,106**	**1,366,091**	**167,705**	**547,273**	**41,892**	**16,287,067**
Off-balance sheet items constituting foreign currency item		**794,985**	**432,207**	**377,677**	**66,067**	
On-balance sheet item		**511,998**	**26,181**	**365,008**	**-15,405**	
Off-balance sheet item		**-490,210**	**-165,117**	**-363,896**	**32,230**	
Group's open currency position		**21,788**	**-138,936**	**1,112**	**16,825**	

The off-balance-sheet foreign exchange position results in particular from FX swap transactions that are used by the Bank to cover the liquidity mismatch in foreign currencies.

5.2.4. Other market risks

Other market risks are general and specific risk of equity instruments, commodities risk and position risk (related to collective investment undertakings). These risks arise from the effect of movements in prices of equity and commodities and investment certificates on the risk of impairment of assets, increase in liabilities or change in profit or loss.

These risks are mainly attributable to DM BOŚ S.A.'s trading book.

Transactions in equity instruments executed for own account by DM BOŚ S.A. relate to DM BOŚ S.A.'s activities as market maker and in most cases are closed at the end of the day. Significant exposure to equity instruments exists only in the case of hedged (arbitrage) transactions opened by DM BOŚ S.A., including as part of short selling. Hedged (arbitrage) transactions involve taking advantage of temporary price imbalances between two markets (e.g., between the prices of derivative financial instruments and the prices of the underlying instruments). This risk is limited by total exposure limits for hedged (arbitrage) and unhedged transactions. These limits are monitored on a daily basis. DM BOŚ S.A. also executed transactions (as a market maker) in four investment certificates (BETA ETF WIG20TR Portfelowy FIZ, BETA ETF WIG20Short Portfelowy FIZ, BETA ETF WIG20Lev Portfelowy FIZ and BETA ETF mWIG40 Portfelowy FIZ). As a result, DM BOŚ S.A. recorded the risk of positions in collective investment undertakings, and the risk of profit or loss resulting from holding those positions was mitigated by taking opposite positions on WIG20 and mWIG40 futures contracts.

Commodity price risk occurs mainly as part of transactions on the OTC market, transactions with clients of DM BOŚ S.A., and hedging transactions with Saxo Bank A/S, X-Trade Brokers Dom Maklerski S.A. or Interactive Brokers (UK) Ltd.

The COVID-induced volatility of equity and commodity prices and investment certificates had no material adverse effect on the level of other market risks. The measures of these risks were monitored on an ongoing basis, and although their levels generally increased, they remained within the limits applied by DM BOŚ S.A.

5.3. Capital management

For capital adequacy purposes, the Group applies transitional arrangements to mitigate the impact of the first-time application of IFRS 9 on own funds, pursuant to Article 1(9) of Regulation (EU) 2017/2395 of the European Parliament and the Council dated December 12th 2017 (Regulation) amending Regulation (EU) No 575/2013. The Bank also made a decision not to apply the provisions of Art.1.4 of Regulation (EU) 2017/2395.

Taking into account the impact of IFRS 9 both with and without the transitional arrangements, the Group met the applicable capital standards as at December 31st 2020.

Following the decision to apply the transitional provisions, as of February 1st 2018 the Group discloses its own funds, capital ratios and leverage ratio, both with and without applying the transitional arrangements under Article 473a of Regulation (EU) No 575/2013.

The Group's capital, risk-weighted assets, capital ratios, leverage ratio and internal capital were as follows:

Item	December 31st 2020	December 31st 2019
Available capital		
Common equity Tier 1 capital	1,889,750	2,115,730
Common equity Tier 1 capital – without IFRS 9 transitional provisions	1,809,722	2,018,553
Tier 1 capital	1,889,750	2,115,730
Tier 1 capital – without IFRS 9 transitional provisions	1,809,722	2,018,553
Own funds	2,145,333	2,444,537
Own funds – without IFRS 9 transitional provisions	2,065,305	2,347,360
Risk-weighted assets		
Total amount of risk-weighted assets	14,438,751	14,914,877
– Credit risk and counterparty credit risk	13,022,337	13,430,895
– Operational risk	1,064,215	1,049,826
– Market risk	343,877	418,027
– CVA risk	8,323	16,128
Total amount of risk-weighted assets – without IFRS9 transitional provisions	14,386,856	14,830,847
Capital ratios		
Common equity Tier 1 capital ratio	13.09	14.19
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	12.58	13.61
Tier 1 capital ratio	13.09	14.19
Tier 1 capital ratio – without IFRS 9 transitional provisions	12.58	13.61
Total capital ratio	14.86	16.39
Total capital ratio – without IFRS 9 transitional provisions	14.36	15.83
Leverage ratio		
Exposure value	22,073,776	20,347,365
Leverage ratio	8.6	10.4
Leverage Ratio – without IFRS 9 transitional provisions	8.3	10.0
Internal capital		
Internal capital	1,720,983	1,931,352

The amount of own funds and capital requirements were determined in accordance with Regulation (EU) No 575/2013 of June 26th 2013 on prudential requirements for credit institutions and investment firms, hereinafter referred to as CRR.

In order to mitigate the risk of a decrease in capital ratios, the Group monitors the scale and structure of the Group's business and factors that may adversely affect the level of the Group's equity.

On a quarterly basis, the Group estimates internal capital to cover:

1. Pillar 1 risks:
   1) for credit risk and counterparty credit risk – on the basis of the regulatory requirement taking into account an additional mark up for non-performing exposures (NPE) / non-performing loans (NPL),
   2) for specific types of risk within the market risk, including CVA risk and operational risk – based on the regulatory requirements,
2. Pillar 2 risks:
   1) for risks whose level has been assessed as significant.

In accordance with Article 92 of the CRR, the Group is required to maintain the total capital ratio at a minimum of 8%. The Tier 1 capital ratio and Common equity Tier 1 capital ratio should amount at least to 6% and 4.5%, respectively.

According to the CRR Resolution, and the Act of August 5th 2015 on macro-prudential oversight of the financial system and crisis management in the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. As of January 1st 2019, the capital conservation buffer is 2.5 bps, and the countercyclical buffer is 0 bps. The Bank is not required to maintain the buffer defined for other systemically important institution. The systemic risk buffer was released by decision of the Minister of Finance dated March 18th 2020.

On December 16th 2020, the Polish Financial Supervision Authority recommended that the Bank maintains consolidated own funds to cover additional capital requirements to hedge against the risk arising from foreign currency mortgage credits and household loans at the level of 0.50 p.p. above the TCR ratio referred to in Article 92 (1) letter c) of the CRR Regulation, which should be composed of, at least, 75% of the Tier I capital (which corresponds to the capital requirement at the level of 0.37 p.p. above the value of Tier I capital which is referred to in Article 92 (1) letter b) of the CRR Regulation) and of at least 56% of the common equity Tier I capital (which corresponds to the capital requirement at the level of 0.28 p.p. above the common equity Tier I capital ratio referred to in Article 92 (1) letter a) of the CRR Regulation).

As a result, as of December 31st 2020 the minimum capital ratios recommended by the Authority are 8.87% for Tier 1 capital ratio and 11.0% for the TCR ratio.

The capital adequacy ratio of the Group as at December 31st 2020 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional solutions.

In a letter from the Bank Guarantee Fund ("BFG") dated December 10th 2020, the Bank was notified of an update of the minimum requirement for own funds and eligible liabilities (MREL). The target MREL level, calculated on the basis of consolidated data as at December 31st 2019, was 16.23% of the total risk exposure amount (RWA) or 13.16% of the total of own funds and liabilities.

On a consolidated basis, the Bank is required to meet the minimum level of own funds and redeemable or convertible liabilities from January 1st 2024.

The BFG informed the Bank that in the next planning cycle MREL will be determined using a new methodology related to the adopted Banking Package which incorporates amendments to the BRRD, CRD IV and of the CRR Regulation.

5.4. Operational risk

Operational risk is understood as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk, taking into account operational risk events characterised by low frequency of occurrence but high losses. Reputational and strategic risks are not part of operational risk.

The Group applies an operational risk management system under which the responsibility for the day-to-day operational risk management rests with all the Group's employees, and in particular with the heads of organizational units/offices of the Head Office and Business Centres and Branches of the Bank – in accordance with respective responsibilities and tasks.

The Bank gathers information on significant operational risk events in the operational risk event database, in a dedicated IT application. This information is used to:

1. monitor the level of operational risk on an ongoing basis,
2. monitor activities of organisational units related to the operational risk events,
3. measure or estimate losses arising from operational risk,
4. generate reports on operational risk events, including reports for external institutions.

The Group sets basic limits for operational risk, including in particular tolerance and appetite limits across the Bank, as well as a target operational risk profile. The degree of utilisation of the tolerance limits and appetite for operational risk is controlled by periodic monitoring of the amount of losses incurred due to operational risk events.

Operational risk is measured using quantitative, qualitative and mixed methods, including, but not limited to:

1. calculation of the capital requirement for operational risk in accordance with the standardised approach,
2. estimation and determination of internal capital for operational risk; as at December 31st 2020, the amount of internal capital was equal to the amount of capital requirements for operational risk,
3. calculation and monitoring of key risk indicators (KRI),
4. reviews of operational risk (self-assessment of potential operational risk),
5. stress tests.

At the Group, stress tests for operational risk are carried out using three methods: sensitivity analysis, reverse analysis, and scenario analysis. Stress tests are conducted once a year. As a result of the stress tests carried out so far, the amount of losses assumed in the scenarios, compared with the amount of available capital in the form of a tolerance limit and capital requirement for operational risk, confirmed the ability of the Bank to absorb operational risk losses through its operational risk capital requirement and, under most of the scenarios – through the operational risk tolerance limit.

In order to reduce its exposure to operational risk, the Group uses the following instruments (methods, techniques and tools):

1. organisation of work to mitigate the occurrence of operational risk by, among other things, separating executive and control functions, setting decision and transaction limits, and managing access rights to premises and systems to reduce the possibility of unauthorised actions,
2. the HR policy,
3. internal control functions,
4. strategic internal limits for operational risk, i.e., tolerance and appetite limits,
5. periodic reviews of operational risk based on the self-assessment process,
6. risk maps built to identify the sources of potential threats and assessment of related risk levels,
7. operational risk stress testing,
8. threshold values of key risk indicators (KRI),
9. clauses in contracts with third parties that mitigate operational risk,
10. insurance of bank property with specialized firms,
11. documenting the methodological, process, organisational and IT solutions applied by the Bank,
12. automation of activities with the use of IT solutions and increasing the quality of operations through the use of specialised software,

13. continuity and contingency plans developed for the critical business processes of the Bank,
14. analysis of the adequacy of the calculated capital requirements for operational risk to the actual operational risk incurred by the Bank,
15. internal training for the Bank's employees aimed at raising their awareness and understanding of the role, impact and ways of conduct with respect to operational risk.

The level and profile of operational risk, the utilisation of operational risk limits and the amount of losses arising from operational risk events are regularly monitored by the Department for Financial and Operational Risk and reported to the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board and the Operational Risk Committee.

5.5. Non-compliance risk

Non-compliance risk is defined as a risk of effects of failure to comply with laws, internal regulations and market standards.

The Bank ensures compliance with laws, internal regulations and market standards through the control function (application of control mechanisms and monitoring their observance) and the compliance risk management process, which includes identification, assessment, control and monitoring of compliance risk and reporting in this respect to the Management Board and the Supervisory Board.

The basic rules for ensuring compliance as part of the compliance risk management function and process are defined in the Compliance Policy of Bank Ochrony Środowiska S.A., prepared by the Management Board and approved by the Supervisory Board, and its implementing acts, including:

a. Principles of non-compliance risk management at Bank Ochrony Środowiska S.A.,
b. Principles of internal control at Bank Ochrony Środowiska S.A.

The Bank has a separate, independent compliance function reporting directly to the President of the Management Board and responsible for performing its duties within the control function and tasks related to compliance risk management.

Compliance risk management at the Bank aims to:

a. identify, assess and control the potential for negative consequences of non-compliance with laws, internal regulations and market standards, including in particular legal sanctions, financial losses, or loss of reputation that may result from non-compliance with laws, internal regulations and market standards,
b. consolidate the Bank's image as an institution operating in compliance with the law, honest, reliable, environmentally friendly, credible and responsible in business.

The Bank identifies the following key compliance areas:

1. preventing illegal activities at the Bank, including counteracting money laundering and financing terrorism,
2. protecting information,
3. implementing and monitoring compliance with ethical standards,
4. accepting or giving benefits and gifts,
5. advertising and marketing activities,
6. offering products,
7. customer complaints,
8. managing conflicts of interest.

In 2020, there were no events which would have a material impact on the level of non-compliance risk, and the Bank focused its efforts on preventing the occurrence of non-compliance risk.

5.6. Model risk

Model risk is defined by the Group in accordance with supervisory requirements as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models (Art. 3.1, Section 11, CRD IV).

The process of identifying, assessing and monitoring model risk includes areas related to:

1. the risk of using incorrect and incomplete data,
2. the risk of erroneous assumptions of models, which are inadequate to the estimated process,
3. the methodological risks resulting from the use of inappropriate estimation methodologies and techniques in the model construction process,
4. the risk of insufficient monitoring, validation and update of models, also the risk of applying an incorrectly implemented but correct model.

Due to the widespread use of models supporting basic processes in the Bank, such as the credit process, the capital management processes, or the credit risk and market risk management processes, the Bank considers the model risk as consistently significant. Internal capital is estimated and established for model risk.

The Group manages model risk in accordance with internal regulations, including the internal capital estimation and allocation rules, the model risk management policy, the model risk management methodology and the significant model validation methodologies. The policy defines the rules governing the processes related to estimation, verification and management of the level of model risk and regulates matters related to the construction, verification, implementation, validation and monitoring of models used at the Bank. Activities in this area are coordinated by an independent unit of the Model Validation Office and the Operational Risk Team in the Financial and Operational Risk Department, reporting directly to Vice President of the Management Board who coordinates organisation of the Risk Area.

In order to quickly and accurately identify model risk, the Group has in place a standardized, comprehensive model risk management process, which includes:

1. the model life cycle,
2. the principles of assigning materiality grades to the models used by the Group,
3. the principles of operation of model logs, which contain information regarding the models, sets of their parameters, changes to the models, their updates and reviews. The logs provide a baseline of information on the relevance of the models, monitoring results, validation and risk levels carried by the models,
4. the standards and principles of monitoring and reporting of model risk – material models are monitored on a quarterly basis, and non-material models – annually. In exceptional cases, due in particular to limited availability of the data or significant operational intensity of monitoring, models may be monitored less frequently (but not less frequently than once year for material models and not less frequently than once every three for non-material models). Model risk is reported on a quarterly basis. Implementation of the Policy is assessed on an annual basis and the assessment results are approved by the Supervisory Board,
5. the principles of model validation – models are validated by an independent Model Validation Office, at least once a year for material models. Certain types of material models may be validated less frequently than once year (but not less frequently than once every three years), if such frequency results directly from the nature of the model operation. Other models are validated on an ad-hoc basis when ordered by the Management Board or a relevant Committee, based on external or internal recommendations, or at the request of the model owner.

As at December 31st 2020, the Group operated a total of 21 models, including seven material models and 14 immaterial models.

Risks of the Bank's models are assessed on a regular basis, in accordance with the standards adopted in internal regulations, taking into account the calculation of internal capital related to hedging the Bank against the model risk. Reporting on the status of model management and validation includes model risk assessment, risk tolerance level and the associated level of capital allocated to the model risk. Reports are prepared for the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board and the ALCO Committee. Reports on

validation for material models are presented and approved during meetings of the relevant Committees appointed by the Management Board.

As at December 31st 2020, the aggregated risk of material models was moderate. None of the material models generated high risk. The aggregated model risk fell within the tolerance level determined and approved by the Supervisory Board.

6. Net interest income

Item	January 1st–December 31st 2020				January 1st–December 31st 2019			
	Interest income		Income similar to interest income	Total	Interest income		Income similar to interest income	Total
	Financial assets measured at amortised cost	Assets measured at fair value through other comprehen sive income	Financial assets mandatorily measured at fair value through profit or loss		Financial assets measured at amortised cost	Assets measured at fair value through other comprehen sive income	Financial assets mandatorily measured at fair value through profit or loss	
Amounts due from banks and the central	986	-	-	986	3,673	-	-	3,673
Amounts due from institutional clients	309,299	-	1,182	310,481	367,912	-	2,723	370,635
Amounts due from retail clients	107,572	-	10	107,582	122,011	-	37	122,048
Non-trading investment debt securities	29,959	67,698	-	97,657	34,728	95,718	659	131,105
Financial instruments held for trading	-	-	1,876	1,876	-	-	129	129
Total	**447,816**	**67,698**	**3,068**	**518,582**	**528,324**	**95,718**	**3,548**	**627,590**

Item	January 1st–December 31st 2020			January 1st–December 31st 2019		
Interest expense and similar charges on:	**Financial liabilities measured at amortised cost**	**Financial liabilities measured at fair value through profit or loss**	**Total**	**Financial liabilities measured at amortised cost**	**Financial liabilities measured at fair value through profit or loss**	**Total**
Bank accounts and deposits from banks	321	-	321	1,023	-	1,023
Bank accounts and deposits from institutional clients	22,447	-	22,447	47,038	-	47,038
Bank accounts and deposits from retail clients	96,456	-	96,456	126,988	-	126,988
Borrowings from banks	-	-	-	-	-	-
Borrowings from clients	462	-	462	818	-	818
JESSICA lending support funds	177	-	177	261	-	261
Financial instruments – own debt securities	15,100	-	15,100	18,656	-	18,656
Hedging transactions	-	7,700	7,700	-	8,772	8,772
Lease liabilities	3,686	-	3,686	3,933	-	3,933
Litigation and claims related to foreign currency mortgage loans	614	-	614	-	-	-
Other	639	-	639	114	-	114
Total	**139,902**	**7,700**	**147,602**	**198,831**	**8,772**	**207,603**

7. Net fee and commission income

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Fee and commission income		
Brokerage service fees	101,450	59,555
Fees for maintaining client accounts, other domestic and international settlement transactions	32,637	34,791
Commission fees on credit facilities	31,281	32,139
Commission fees on guarantees and letters of credit	5,943	5,071
Fees for portfolio management services and other management fees	605	496
Other fees	2	13
Total	**171,918**	**132,065**
Fee and commission expense		
Brokerage fees, including:	27,419	21,235
for custody services	405	358
Payment card fees	6,151	7,656
Current account fees	1,351	1,039
ATM service charges	1,225	1,134
Fees on amounts due from clients	213	617
Fees paid to other banks for cash transactions	-	1
Other fees	969	2,010
Total	**37,328**	**33,692**

8. Dividend income

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Securities held for trading at fair value through profit or loss	57	157
Securities measured at fair value through other comprehensive income	6,205	6,277
Total	**6,262**	**6,434**

The amount of 2020 dividend includes dividends from:
1) Kemipol Sp. z o.o. of PLN 5,526 thousand (2019: PLN 5,447 thousand),
2) WODKAN Przedsiębiorstwo Wodociągów i Kanalizacji S.A. of PLN 679 thousand (2019: PLN 830 thousand).

9. Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Securities held for trading	- 14,290	- 5,494
Derivative financial instruments	88,719	48,802
Amounts due from clients	32	1,649
Total	**74,461**	**44,957**

10. Gain (loss) on investment securities

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Gain (loss) on sale of securities measured at fair value through other comprehensive income	4,239	582
Total	**4,239**	**582**

BOŚ BANK 30 lat

11. Gain (loss) on hedge accounting

Item	January 1st– December 31st 2020	January 1st– December 31st 2019
Gain (loss) on fair value measurement of fair value hedging transactions	- 10,463	457
Gain (loss) on measurement of hedged part of Treasury bonds covered by fair value hedge accounting	8,425	- 499
Total	**- 2,038**	**- 42**

12. Gain (loss) on foreign exchange transactions

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Realised gain (loss) on valuation transactions	20,210	15,309
Unrealised gain (loss) on valuation transactions	6,186	1,194
Total	**26,396**	**16,503**

13. Other income

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Reversal of provisions for liabilities, including:	5,492	5,157
provisions for liabilities and claims	2,138	812
other provisions	3,354	4,345
Reversal of impairment losses on receivables	1,599	1,587
Recoveries of prescribed, cancelled or uncollectible receivables	177	1,873
Proceeds from sale or retirement of property, plant and equipment	69	103
Reimbursement of debt collection costs	748	1,235
Revenue from sale of goods and provision of services	8,819	8,432
Adjustment of interest on cancelled deposits from previous years	907	379
Income from damages, penalties and fines	215	151
Other	2,597	8,633
Total	**20,623**	**27,550**

14. Other expenses

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Retirement of property, plant and equipment and intangible assets	137	429
Donations made	1,404	960
Recognised provisions for liabilities and claims, including:	11,834	2,802
provision for refund of commission fees due to early loan repayment	1,269	1,183
provision for other liabilities and claims	10,565	1,619
Impairment losses on receivables	3,657	1,622
Costs of debt collection	2,944	4,347
Adjustment to interest and commission fees on previous years' loans	1,873	1,794
Lease payments	1,331	-
Costs of maintenance and administration of own leased premises	119	120
Costs damages, penalties and fines	472	1,155
Costs of erroneous brokerage transactions	250	130
Other	4,070	3,686
Total	**28,091**	**17,045**

15. Net impairment losses

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Securities measured at fair value through other comprehensive income	- 4,650	9
Securities measured at amortized cost	- 40	- 2
Amounts due from banks	94	1,727
Amounts due from clients and off-balance-sheet liabilities, including:	- 159,197	- 106,270
on-balance-sheet receivables	- 157,005	- 99,597
from retail clients	- 51,726	- 43,092
from institutional clients	- 105,279	- 56,505
off-balance-sheet liabilities	- 2,192	- 6,673
from retail clients	- 104	497
from institutional clients	- 2,088	- 7,170
Total	**-163,793**	**-104,536**

Net impairment losses on amounts due from clients:

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Individual assessment	- 82,697	- 85,902
Group assessment	- 74,308	- 13,695
Total	**- 157,005**	**-99,597**

16. Administrative expenses

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Employee benefits	170,723	157,053
Administrative expenses, including:	152,733	148,643
material costs	109,058	100,158
taxes and charges	5,480	5,452
contribution and payments to BGF	35,552	39,986
contribution and payments to PFSA	2,360	2,819
contribution to cover operating expenses of Financial Ombudsman	192	119
contribution to Chamber of Brokerage Houses (Izba Domów Maklerskich, IDM)	91	91
other securities	-	18
Amortization and depreciation, including:	52,905	55,658
depreciation of property, plant and equipment	12,961	12,587
amortisation of tangible assets	24,402	25,675
depreciation of rights-of-use assets	15,542	17,369
Total	**376,361**	**361,354**

Employee benefits

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Salaries and wages, including:	143,724	132,771
retirement benefits	289	400
Social security contributions	26,999	24,282
Total	**170,723**	**157,053**

The Group does not fund retirement benefits based on defined benefit plans, except for retirement severance pay.

Depreciation of right-of-use assets

Item	December 31st 2020	December 31st 2019
Real property	15,254	16,968
Vehicles	288	428
Total	**15,542**	**17,396**

17. Income tax expense

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Current tax	- 38,728	- 45,294
Deferred tax	17,547	7,100
Total	**- 21,181**	**- 38,194**
Profit (loss) before tax	**- 285,753**	**110,188**
Income tax at 19% tax rate	54,293	- 20,936
Permanent differences between profit before tax and tax base	- 76,996	- 16,467
decreasing:	3,525	2,371
reversed impairment losses	745	615
dividends received	1,190	1,223
other	1,590	533
increasing:	- 81,114	- 19,020
recognised impairment losses	- 3,052	- 1,858
provisions for future liabilities, including 'large TSUE'	- 68,166	- 4,340
contributions to BGF	- 6,734	- 7,576
other	- 3,162	- 5,246
deductions from taxable income:	593	182
R&D relief	327	-
donations	266	182
Tax expense on profit or loss for current year	**- 22,703**	**- 37,403**
Tax expense on profit or loss for previous years	**1,522**	**- 791**
Total tax expense on profit or loss	**- 21,181**	**- 38,194**
Effective tax rate	**- 7%**	**35%**

For detailed information on deferred tax, see Note 33.

18. Earnings (loss) per share

Basic earnings (loss) per share are calculated as the quotient of profit attributable to shareholders of the Bank and the weighted average number of ordinary shares during the year.

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Net profit (loss)	- 306,934	71,994
Weighted average number of ordinary shares (thousand)	92,910	92,910
Basic earnings (loss) per share (PLN)	**- 3.30**	**0.77**

Diluted earnings (loss) per share are equal to basic earnings (loss) per share in the periods presented.

19. Cash and balances at central bank

Item	December 31st 2020	December 31st 2019
Cash in hand	21,782	26,610
Cash and balances at central bank	244,770	271,256
Total	**266,552**	**297,866**

20. Amounts due from other banks

Item	December 31st 2020	December 31st 2019
Deposits with other banks, recognised as cash equivalents	33,328	70,214
Deposits with other banks up to 3 months	9,088	5,962
including: Deposits with other banks up to 3 months (Dom Maklerski BOŚ S.A. client funds)	9,088	5,962
Deposits with other banks over 3 months	-	-
Derivative hedging receivables	99,092	75,520
Debt securities classified as amounts due from other banks	15,051	15,074
Total gross	**156,559**	**166,770**
Impairment losses on debt securities classified as receivables from other banks	- 943	- 1,037
Total net	**155,616**	**165,733**

For information on amounts due from other banks by maturity, see Note 24.

Change in gross carrying amount of amounts due from other banks:

Item	Gross carrying amount of amounts due from banks				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
At beginning of period January 1st 2020	**151,696**	**15,074**	**-**	**-**	**166,770**
Change in gross carrying amount due to acquisition of financial assets	69,272	-	-	-	69,272
Change in gross carrying amount of existing portfolio	- 16,548	- 23	-	-	- 16,571
Change in gross carrying amount due to derecognition of financial asset	- 62,912	-	-	-	- 62,912
At end of period December 31st 2020	**141,508**	**15,051**	**-**	**-**	**156,559**

Item	Gross carrying amount of amounts due from banks				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
At beginning of period January 1st 2019	**198,868**	**-**	**-**	**-**	**198,868**
Change in gross carrying amount due to acquisition of financial assets	66,788	-	-	-	66,788
Change in gross carrying amount of existing portfolio	- 1,880	-	-	-	-1,880
Change in gross carrying amount due to derecognition of financial asset	- 97,006	-	-	-	- 97,006
Change in gross carrying amount due to reallocation of financial assets between Buckets	-15,074	15,074	-	-	-
Reallocation to Bucket 2	-15,074	15,074	-	-	-
At end of period December 31st 2019	**151,696**	**15,074**	**-**	**-**	**166,770**

21. Financial assets and liabilities held for trading

Assets	December 31st 2020	December 31st 2019
Derivative financial instruments, including:	98,297	75,699
foreign exchange and currency derivative transactions	7,756	13,635
interest rate derivative transactions	74,136	43,380
forward contracts and options	16,405	94
other	-	18,590
Securities held for trading	14,837	64,645
debt securities	805	44,534
equity securities	14,032	20,111
Total financial assets held for trading	**113,134**	**140,344**

Liabilities	December 31st 2020	December 31st 2019
Derivative financial instruments, including:	102,741	50,926
foreign exchange and currency derivative transactions	17,458	3,139
interest rate derivative transactions	80,638	45,836
forward contracts and options	4,645	690
other	-	1,261
Securities held for trading	575	-
equity securities	575	-
Total financial liabilities held for trading	**103,316**	**50,926**

22. Investment securities

Item	December 31st 2020				December 31st 2019		
	Measured at fair value through other comprehensive income	Measured at amortised cost	Measured at fair value with the effect recognised in profit or loss	Total	Measured at fair value through other comprehensive income	Measured at amortised cost	Total
Debt securities:	**5,597,061**	**1,535,239**	**153,634**	**7,285,934**	**3,839,184**	**1,377,384**	**5,216,568**
Treasury bonds	2,026,964	1,397,710	-	3,424,674	2,281,190	1,327,866	3,609,056
Treasury bills	159,777	-	-	159,777	-	-	-
NBP money market bills – recognised as cash equivalents	2,179,952	-	-	2,179,952	1,319,835	-	1,319,835
municipal bonds	147,739	-	-	147,739	188,613	-	188,613
bonds of other banks	593,370	87,875	153,634	834,879	49,546	-	49,546
bonds of other financial institutions	489,259	49,654	-	538,913	-	49,518	49,518
Equity securities	**85,480**	**-**	**-**	**85,480**	**85,510**	**-**	**85,510**
listed	18,543	-	-	18,543	18,543	-	18,543
unlisted	66,937	-	-	66,937	66,967	-	66,967
Total	**5,682,541**	**1,535,239**	**153,634**	**7,371,414**	**3,924,694**	**1,377,384**	**5,302,078**

For information on investment securities by maturity, see Note 24.

Change in gross carrying amount and impairment losses on investment securities:

Item	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Debt securities measured at fair value through profit or loss	Equity securities measured at fair value through other comprehensive income	Total
At beginning of period January 1st 2020	**3,839,184**	**1,377,491**	**-**	**85,510**	**5,302,185**
Increase due to purchase	105,267,786	160,586	149,625	-	105,577,997
Increase due to accrued interest, discount, premium	111,720	54,861	1,853	-	168,434
Valuation – value increase	279,804	693	30,821	12	311,330
Decrease due to sale and purchase	103,532,450	-	-	-	103,532,450
Decrease due to realized interest, premium	118,613	57,489	-	-	176,102
Valuation – decrease in value	250,409	757	28,665	42	279,873
Other changes	39	-	-	-	39
At end of period December 31st 2020	**5,597,061**	**1,535,385**	**153,634**	**85,480**	**7,371,560**

Item	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Debt securities measured at fair value through profit or loss	Equity securities measured at fair value through other comprehensive income	Total
At beginning of period January 1st 2019	**4,015,998**	**1,375,373**	**-**	**85,027**	**5,476,398**
Increase due to purchase	77,618,901	-	-	499	77,619,400
Increase due to accrued interest, discount, premium	132,977	55,837	-	-	188,814
Valuation – value increase	154,468	492	-	1	154,961
Decrease due to sale and purchase	77,777,627	-	-	-	77,777,627
Decrease due to realized interest, premium	138,991	53,461	-	-	192,452
Valuation – decrease in value	166,603	750	-	17	167,370
Other changes	61	-	-	-	61
At end of period December 31st 2019	**3,839,184**	**1,377,491**	**-**	**85,510**	**5,302,185**

Change in impairment losses on investment securities:

Item	Debt securities measured at amortised cost	Total
At beginning of period January 1st 2020	**107**	**107**
Recognised impairment losses	47	47
Reversed impairment losses	- 8	- 8
At end of period December 31st 2020	**146**	**146**

Item	Debt securities measured at amortised cost	Total
At beginning of period January 1st 2019	**105**	**105**
Recognised impairment losses	3	3
Reversed impairment losses	- 1	- 1
At end of period December 31st 2019	**107**	**107**

Investment securities pledged as security:

Item	December 31st 2020		December 31st 2019	
	measured at fair value through other comprehensive income	measured at amortised cost	measured at fair value through other comprehensive income	measured at amortised cost
Security for loans received from banks and International Financial Organisations	**361,668**	**598,119**	**513,193**	**592,154**
up to 1 year	82,129	-	10,431	-
over 1 year	279,539	598,119	502,762	592,154
Security for Guaranteed Funds Protection Fund	**-**	**60,849**	**5,056**	**70,998**
over 1 year	-	60,849	5,056	70,998
Security for liabilities in the form of contributions to Guarantee Fund	**11,992**	**12,325**	**7,292**	**8,455**
up to 1 year	4,006	-	-	-
over 1 year	7,986	12,325	7,292	8,455
Security for liabilities in the form of contributions to Forced Restructuring Fund	**17,017**	**13,590**	**16,891**	**8,744**
up to 1 year	5,609	-	-	-
over 1 year	11,408	13,590	16,891	8,744
Collateral in REPO transactions	**275,212**	**321,133**	**86,989**	**447,013**
up to 1 year	-	-	58,411	-
over 1 year	275,212	321,133	28,578	447,013
Total	**665,889**	**1,006,016**	**629,421**	**1,127,364**

23. Amounts due from clients

Item	December 31st 2020			December 31st 2019		
	Gross amounts due from clients	Impairment losses	Net amounts due from clients	Gross amounts due from clients	Impairment losses	Net amounts due from clients
Measured at amortised cost	**13,030,489**	**1,203,009**	**11,827,480**	**13,132,205**	**1,171,013**	**11,961,192**
Amounts due from retail clients	**3,800,293**	**336,569**	**3,463,724**	**3,827,101**	**274,846**	**3,552,255**
overdraft facilities	4,428	1,400	3,028	2,705	1,343	1,362
cash loans	474,414	110,114	364,300	445,405	77,921	367,484
housing loans	3,031,302	185,429	2,845,873	3,040,641	151,949	2,888,692
other facilities	290,149	39,626	250,523	338,350	43,633	294,717
Amounts due from institutional clients	**9,230,196**	**866,440**	**8,363,756**	**9,305,104**	**896,167**	**8,408,937**
working capital facilities	611,961	93,252	518,709	669,517	138,973	530,544
term facilities	7,991,981	754,186	7,237,795	7,959,333	736,388	7,222,945
factoring receivables	337,125	5,675	331,450	521,821	10,477	511,344
lease receivables	116,466	10,710	105,756	103,166	9,537	93,629
purchased receivables	97,470	1,347	96,123	51,267	792	50,475
commercial paper	75,193	1,270	73,923	-	-	-
Measurement at fair value through profit or loss	**-**	**-**	**25,514**	**-**	**-**	**38,285**
Amounts due from retail clients	**-**	**-**	**1,192**	**-**	**-**	**1,938**
housing loans	-	-	427	-	-	648
other facilities	-	-	765	-	-	1,290
Amounts due from institutional clients	**-**	**-**	**24,322**	**-**	**-**	**36,347**
working capital facilities	-	-	39	-	-	195
term facilities	-	-	24,283	-	-	36,152
Total	**-**	**-**	**11,852,994**	**-**	**-**	**11,999,477**
Security deposits	31,706	2	31,704	-	-	4,317
Other amounts due from clients	2,599	-	2,599	-	-	-
Total amounts due from clients	**-**	**-**	**11,887,297**	**-**	**-**	**12,003,794**

Amounts due from clients included preferential loans with subsidised interest from NFOŚiFW and WFOŚiGW; in the reporting period, the amounts were as follows (nominal values):

Item	December 31st 2020	December 31st 2019
Preferential loans with subsidies, including:	**93,488**	**136,575**
measured at amortised cost	69,525	102,031

measured at fair value through profit or loss	23,963	34,544

Change in gross carrying amount of and impairment losses on amounts due from clients:

Item	Gross carrying amount of amounts due from retail clients					Gross carrying amount of amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
At beginning of period January 1st 2020	**3,246,426**	**223,318**	**357,357**	**-**	**3,827,101**	**5,445,050**	**2,213,490**	**1,646,564**	-	**9,305,104**
Change in gross carrying amount due to acquisition of financial assets	269,609	187	-	-	269,796	1,154,125	41,928	-	250	1,196,303
Change in gross carrying amount of existing portfolio	- 156,130	- 4,769	14,442	-	- 146,457	- 11,543	- 159,321	- 48,265	106	- 219,023
Change in gross carrying amount due to derecognition of financial asset	- 138,271	- 6,873	- 5,003	-	- 150,147	- 571,018	- 258,489	- 219,678	-	- 1,049,185
including change in gross carrying amount due to financial instruments that were written off from the statement of financial position	-	-	- 282	-	- 282	- 6,183	3,303	- 164,245	-	- 167,125
Change in gross carrying amount due to reallocation of financial asset between	- 119,600	- 9,648	129,248	-	-	- 545,839	374,055	171,785	-	1
Reallocation to Bucket 1	54,658	- 54,231	- 427	-	-	229,154	- 229,121	- 32	-	1
Reallocation to Bucket 2	- 64,317	75,311	- 10,994	-	-	- 699,209	697,928	1,281	-	-
Reallocation to Bucket 3	- 109,941	- 30,728	140,669	-	-	- 75,784	- 94,752	170,536	-	-
Other changes	- 105	102	3	-	-	10,253	- 13,258	1	-	- 3,004
At end of period December 31st 2020	**3,101,929**	**202,317**	**496,047**	**-**	**3,800,293**	**5,481,028**	**2,198,405**	**1,550,407**	**356**	**9,230,196**

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
At beginning of period January 1st 2020	**17,937**	**26,812**	**230,097**	**-**	**274,846**	**61,245**	**98,136**	**736,786**	**-**	**896,167**
Change in impairment losses due to acquisition of financial assets	3,423	21	-	-	3,444	16,033	1,395	-	3	17,431
Change in estimates of impairment losses	- 10,290	6,362	67,145	-	63,217	- 6,336	28,106	119,726	22	141,518
Change in impairment losses on derecognition of financial assets	- 1,001	- 815	- 3,122	-	- 4,938	- 4,898	- 9,427	- 174,352	-	- 188,677
including change in impairment losses on financial instruments written-off from the statement of financial position	-	-	- 282	-	- 282	- 1	-	- 167,124	-	- 167,125
Change in impairment losses due to reallocations of financial assets between Buckets	5,464	- 10,714	5,250	-	-	3,119	- 13,676	10,558	-	1
Reallocation to Bucket 1	7,297	- 7,129	- 168	-	-	16,392	- 16,382	- 9	-	1
Reallocation to Bucket 2	- 706	4,017	- 3,311	-	-	- 11,845	11,271	574	-	-
Reallocation to Bucket 3	- 1,127	- 7,602	8,729	-	-	- 1,428	- 8,565	9,993	-	-
Other changes	- 24	24	-	-	-	100	- 101	1	-	-
At end of period December 31st 2020	**15,509**	**21,690**	**299,370**	**-**	**336,569**	**69,263**	**104,433**	**692,719**	**25**	**866,440**

Item	Gross carrying amount of amounts due from retail clients					Gross carrying amount of amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
At beginning of period January 1st 2019	**3,433,206**	**161,325**	**352,464**		**3,946,995**	**4,858,511**	**1,861,785**	**2,075,983**	-	**8,796,279**
Change in gross carrying amount due to acquisition of financial assets	315,562	-	-	-	315,562	1,501,542	7,023	181	-	1,508,746
Change in gross carrying amount of existing portfolio	- 227,371	- 13,631	6,410	-	- 234,592	277,093	- 117,473	- 70,787	-	88,833
Change of gross value resulting from derecognition of a financial asset, including:	- 164,178	- 5,509	- 31,491	-	- 201,178	- 855,675	- 126,180	- 106,585	-	- 1,088,440
change in gross carrying amount due to financial instruments that were written off from the statement of financial position	-	- 34	- 20,931	-	- 20,965	-	-	- 6,575	-	- 6,575
Change in gross carrying amount due to reallocation of financial assets between Buckets	- 110,838	81,152	29,686	-	-	- 336,422	588,331	- 251,909	-	-
Reallocation to Bucket 1	16,851	- 15,876	- 975	-	-	218,167	- 217,714	- 453	-	-
Reallocation to Bucket 2	- 108,477	118,712	- 10,235	-	-	- 439,124	857,416	- 412,783	-	5,509
Reallocation to Bucket 3	- 19,212	- 21,684	40,896	-	-	- 115,465	- 51,371	161,327	-	- 5,509
Other changes	45	- 19	288	-	314	1	4	- 319	-	- 314
At end of period December 31st 2019	**3,246,426**	**223,318**	**357,357**	-	**3,827,101**	**5,445,050**	**2,213,490**	**1,646,564**	-	**9,305,104**

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
At beginning of period January 1st 2019	**11,328**	**7,065**	**221,364**	**-**	**239,757**	**47,684**	**100,351**	**655,641**	**-**	**803,676**
Change in impairment losses due to acquisition of financial assets	4,269			-	4,269	19,340	279	38	-	19,657
Change in estimates of impairment losses	3,071	19,456	34,080	-	56,607	- 5,520	- 265	113,902	-	108,117
Change in impairment losses on derecognition of financial assets, including:	- 864	- 466	- 24,559	-	- 25,889	- 5,901	- 5,952	- 23,328	-	- 35,181
change in impairment losses on financial instruments written-off from the statement of financial position	-	- 34	- 20,931	-	- 20,965	-	-	- 6,575	-	- 6,575
Change in impairment losses due to reallocations of financial assets between Buckets	-	757	- 890	-	-	5,905	3,432	- 9,337	-	-
Reallocation to Bucket 1	888	- 663	- 225	-	-	16,944	- 16,823	- 121	-	-
Reallocation to Bucket 2	- 507	4,278	- 3,771	-	-	- 7,442	23,038	- 15,479	-	117
Reallocation to Bucket 3	- 248	- 2,858	3,106	-	-	- 3,597	- 2,783	6,263	-	- 117
Other changes	-	-	102	-	102	- 263	291	- 130	-	- 102
At end of period December 31st 2019	**17,937**	**26,812**	**230,097**	**-**	**274,846**	**61,245**	**98,136**	**736,786**	**-**	**896,167**

24. Financial assets by maturity

December 31st 2020	up to 1 month	over 1 month to 3 months	over 3 months to 6 months	over 6 months to 12 months	over 1 year to 5 years	over 5 years	undefined maturity date	Total
Amounts due from other banks (Note 20)	140,565	-	51	-	15,000	-	-	**155,616**
Securities held for trading (Note 21)	-	-	-	14,836	-	1	-	**14,837**
Securities measured at fair value through other comprehensive income (Note 22)	2,860,574	-	410,375	23,972	1,937,442	364,698	85,480	**5,682,541**
Securities measured at amortised cost (Note 22)	-	-	-	25,943	696,161	813,135	-	**1,535,239**
Securities measured at *fair value through profit or loss* (Note 22)	-	-	-	-	-	153,634	-	**153,634**
Amounts due from clients (Note 23)	187,951	359,142	538,712	1,377,477	4,527,243	4,896,772	-	**11,887,297**
Total	**3,189,090**	**359,142**	**949,138**	**1,442,228**	**7,175,846**	**6,228,240**	**85,480**	**19,429,164**

BOŚ BANK 30 lat

December 31st 2019	up to 1 month	over 1 month to 3 months	over 3 months to 6 months	over 6 months to 12 months	over 1 year to 5 years	over 5 years	undefined maturity date	Total
Amounts due from other banks (Note 20)	150,658	-	75	-	-	15,000	-	**165,733**
Securities held for trading (Note 21)	-	-	-	21,560	43,085	-	-	**64,645**
Securities measured at fair value through other comprehensive income (Note 22)	1,319,834	228	52,352	331,731	1,483,681	651,358	85,510	**3,924,694**
Securities measured at amortised cost (Note 22)	-	-	-	-	649,666	727,718	-	**1,377,384**
Amounts due from clients (Note 23)	175,737	270,571	458,921	1,165,420	4,649,319	5,283,826	-	**12,003,794**
Total	**1,646,229**	**270,799**	**511,348**	**1,518,711**	**6,825,751**	**6,677,902**	**85,510**	**17,536,250**

25. Intangible assets

Item	December 31st 2020	December 31st 2019
Goodwill	973	973
Licenses and software, including:	97,926	86,833
internally produced software	8,024	4,291
Intangible assets under development	11,941	29,192
Other	62	64
Total	**110,902**	**117,062**

Intangible assets fully amortised, in continuous use:

December 31st 2020 131,209
December 31st 2019 119,785

With respect to intangible assets that are not yet available for use, i.e., their development has not been completed, the Group monitors the assets for potential indications of impairment on an ongoing basis. Based on the review of the expenditure on intangible assets under development, no impairment indicators were identified as at December 31st 2020 and December 31st 2019.

Change in intangible assets

Item	Goodwill	Licences and software	Other	Intangible assets under development	Total
As at January 1st 2020					
Gross carrying amount	973	338,380	86	29,192	368,631
Amortisation	-	-251,547	-22	-	-251,569
Net carrying amount	**973**	**86,833**	**64**	**29,192**	**117,062**
Period ending December 31st 2020					
Net carrying amount at beginning of year	973	86,833	64	29,192	117,062
Increase	-	35,492	-	14,144	49,636
purchase	-	4,096	-	14,144	18,240
reclassification from investments	-	31,396	-	-	31,396
Decrease	-	-	-	-31,395	-31,395
reclassification from investments	-	-	-	-31,395	-31,395
Amortisation charge	-	-24,399	-2	-	-24,401
Net carrying amount as at December 31st 2020	**973**	**97,926**	**62**	**11,941**	**110,902**
As at December 31st 2020					
Gross carrying amount	973	373,872	86	11,941	386,872
Amortisation	-	-275,946	-24	-	-275,970
Net carrying amount as at December 31st 2020	**973**	**97,926**	**62**	**11,941**	**110,902**

Item	Goodwill	Licences and software	Other	Intangible assets under development	Total
As at January 1st 2019					
Gross carrying amount	973	322,663	86	22,222	345,944
Amortisation	-	-225,875	-19	-	-225,894
Net carrying amount	**973**	**96,788**	**67**	**22,222**	**120,050**
Period ending December 31st 2019					
Net carrying amount at beginning of year	973	96,788	67	22,222	120,050
Increase	-	15,717	-	18,803	34,520
purchase	-	3,884	-	18,803	22,687
reclassification from investments	-	11,833	-	-	11,833
Decrease	-	-	-	-11,833	-11,833
reclassification from investments	-	-	-	-11,833	-11,833
Amortisation charge	-	-25,672	-3	-	-25,675
Net carrying amount as at December 31st 2019	**973**	**86,833**	**64**	**29,192**	**117,062**
As at 31 December 2019					
Gross carrying amount	973	338,380	86	29,192	368,631
Amortisation	-	-251,547	-22	-	-251,569
Net carrying amount as at December 31st 2019	**973**	**86,833**	**64**	**29,192**	**117,062**

BOŚ BANK 30 lat

26. Property, plant and equipment

Item	December 31st 2020	December 31st 2019
Property, plant and equipment, including:	79,838	73,916
land	742	764
buildings and premises	20,945	20,977
leasehold improvements	24,265	27,247
computer hardware and technical equipment	31,470	23,057
vehicles	115	232
other property, plant and equipment	2,301	1,639
Property, plant and equipment under construction	4,640	3,827
Advance payments	173	-
Total	**84,651**	**77,743**

As at December 31st 2020 and December 31st 2019, there were no assets withdrawn from active use and held for sale.

BOŚ BANK 30 lat

Change in property, plant and equipment

In the presented periods there were no temporarily unused assets with significant carrying amount.

Item	Land and buildings	Leasehold improvements	Technical equipment, vehicles and other equipment	Property, plant and equipment under construction	Advance payments	Total
As at January 1st 2020						
Gross carrying amount	32,106	70,276	113,441	3,827	-	219,650
Amortisation	-10,365	-43,029	-88,513	-	-	-141,907
Net carrying amount	**21,741**	**27,247**	**24,928**	**3,827**	**-**	**77,743**
Period ending December 31st 2020						
Net carrying amount at beginning of year	21,741	27,247	24,928	3,827	-	77,743
Increase:	733	349	18,078	14,261	173	33,594
purchases	-	14	5,697	14,261	173	20,145
reclassification from investments	733	335	12,381	-	-	13,449
Decrease:	-	-1,064	-17,417	-13,448	-	-31,929
retirement/sale	-	-1,064	-17,417	-	-	-18,481
reclassification from investments	-	-	-	-13,448	-	-13,448
Amortisation charge	-787	-3,331	-8,843	-	-	-12,961
Reversal of depreciation charge due to retirement/sale	-	1,064	17,140	-	-	18,204
Net carrying amount as at December 31st 2020	**21,687**	**24,265**	**33,886**	**4,640**	**173**	**84,651**
As at December 31st 2020						
Gross carrying amount	32,839	69,561	114,102	4,640	173	221,315
Amortisation	-11,152	-45,296	-80,216	-	-	-136,664
Net carrying amount	**21,687**	**24,265**	**33,886**	**4,640**	**173**	**84,651**

Item	Land and buildings	Leasehold improvements	Technical equipment, vehicles and other equipment	Property, plant and equipment under construction	Total
As at January 1st 2019					
Gross carrying amount	31,394	75,042	114,983	1,320	222,739
Amortisation	-9,631	-45,729	-92,769	-	-148,129
Impairment	-2,767	-3,447	-	-	-6,214
Net carrying amount	**18,996**	**25,866**	**22,214**	**1,320**	**68,396**
Period ending December 31st 2019					
Net carrying amount at beginning of year	18,996	25,866	22,214	1,320	68,396
Increase:	712	1,726	11,515	9,064	23,017
purchases	100	70	6,717	9,064	15,951
reclassification from investments	29	1,656	4,798	-	6,483
balance transfers	583	-	-	-	583
Decrease:	-	-6,492	-13,057	-6,557	-26,106
retirement/sale	-	-6,492	-13,057	-24	-19,573
reclassification from investments	-	-	-	-6,533	-6,533
impairment	2,767	3,447	-	-	6,214
Amortisation charge	-734	-3,522	-8,331	-	-12,587
Reversal of depreciation charge due to retirement/sale	-	6,222	12,587	-	18,809
Net carrying amount at December 31st 2019	**21,741**	**27,247**	**24,928**	**3,827**	**77,743**
As at December 31st 2019					
Gross carrying amount	32,106	70,276	113,441	3,827	219,650
Amortisation	-10,365	-43,029	-88,513	-	-141,907
Net carrying amount	**21,741**	**27,247**	**24,928**	**3,827**	**77,743**

27. Right of use – leases

Item	December 31st 2020	December 31st 2019
Real property	66,430	78,986
Vehicles	385	752
Land	981	-
Total	**67,796**	**79,738**

Change in right-of-use assets – leases

Change in right-of-use asset	Real property and land	Vehicles	TOTAL
As at January 1st 2020			
Gross carrying amount	95,944	1,167	97,111
Amortisation	- 16,958	-415	- 17,373
Net carrying amount	**78,986**	**752**	**79,738**
Net carrying amount at beginning of year	78,986	752	79,738
Increase	3,805	32	3,837
Decrease	- 919	-153	- 1,072
Amortisation charge	- 15,254	-288	- 15,542
Reversal of depreciation charge	793	42	835
Gross carrying amount at December 31st 2020	**67,411**	**385**	**67,796**
As at December 31st 2020			
Gross carrying amount	98,830	1,046	99,876
Amortisation	- 31,419	- 661	- 32,080
Net carrying amount	**67,411**	**385**	**67,796**

Change in right-of-use asset	Real property and land	Vehicles	TOTAL
As at January 1st 2019			
Gross carrying amount	72,811	1,363	74,174
Amortisation	-	-	-
Net carrying amount	**72,811**	**1,363**	**74,174**
Net carrying amount at beginning of year	72,811	160	72,971
Increase	23,333	329	23,662
Decrease	- 200	-525	- 725
Amortisation charge	- 16,968	-428	- 17,396
Reversal of depreciation charge	10	13	23
Gross carrying amount at December 31st 2019	**78,986**	**- 451**	**78,535**
As at 31 December 2019			
Gross carrying amount	95,944	1,167	97,111
Amortisation	- 16,958	- 415	- 17,373
Net carrying amount	**78,986**	**752**	**79,738**

28. Other assets

Item	December 31st 2020	December 31st 2019
Up-front expenses	7,715	8,120
Cash surplus	1,307	1,978
Interbank settlements	1,733	904
Payment card settlements	251	252
Assorted debtors	287,165	8,618
Settlements of transactions in WSE and OTC market	-	140,596
Right of perpetual usufruct of land	823	-
Public charges	1,039	15,697
Accrued income	15,674	13,150
Assets held for sale	2,102	820
Other	1,522	3,086
Total	**319,331**	**193,221**

29. Amounts due to central bank and other banks

Item	December 31st 2020	December 31st 2019
Deposits from other banks	242,498	114,184
Repurchase transactions	490,245	481,483
Total	**732,743**	**595,667**

Amounts due to central bank and other banks, by maturity:

Item	December 31st 2020	December 31st 2019
up to 1 month	144,937	50,271
over 1 month to 3 months	154,473	63,868
over 3 months to 6 months	255,834	137,246
over 6 months to 12 months	92,284	109,004
from 1 to 5 years	85,215	235,278
Total	**732,743**	**595,667**

30. Amounts due to clients

Item	December 31st 2020	December 31st 2019
Retail clients	9,380,943	8,891,460
current/checking accounts	5,206,561	3,967,906
term deposits	4,174,382	4,923,554
Institutional clients	6,305,999	5,116,946
current/checking accounts	5,126,798	3,099,678
term deposits	1,179,201	2,017,268
Other clients	72,182	63,607
Borrowings from International Financial Institutions	715,708	777,758
Lending support funds	85,883	65,210
Total	**16,560,715**	**14,914,981**

In 2020 and 2019, the Group made all principal and interest payments on time and did not breach any other contractual provisions regarding its payment obligations.

Amounts due to clients, by maturity:

Item	December 31st 2020	December 31st 2019
up to 1 month	11,583,791	8,475,589
over 1 month to 3 months	1,646,210	1,984,100
over 3 months to 6 months	1,202,692	1,549,159
over 6 months to 12 months	834,411	1,381,269
from 1 to 5 years	1,113,773	1,385,764
over 5 years	179,838	139,100
Total	**16,560,715**	**14,914,981**

31. Subordinated liabilities

Series	Currency	Interest rate	Maturity	Nominal value	Amount outstanding	Nominal value	Amount outstanding
				December 31st 2020		December 31st 2019	
AA1	PLN	6M WIBOR + margin (six-month	7 years (with early repayment option after 5 years)	34,214	34,884	34,214	35,096
AA2	PLN	6M WIBOR + margin (six-month	7 years (with early repayment option after 5 years)	65,786	66,259	65,786	66,414
P	PLN	6M WIBOR + margin (six-month	10 years (with early repayment option after 5 years)	150,000	151,834	150,000	152,897
R1	PLN	6M WIBOR + margin (six-month	10 years (with early repayment option after 5 years)	83,000	83,566	83,000	83,896
W	PLN	6M WIBOR + margin (six-month	7 years (with early repayment option after 5 years)	32,500	32,453	32,500	32,428
Total				**365,500**	**368,996**	**365,500**	**370,731**

32. Provisions

Item	December 31st 2020	December 31st 2019
Provisions for contingent liabilities, including:	29,653	27,461
open lines of credit	19,313	19,225
guarantees	10,340	8,236
Provision for employee benefits – retirement and disability benefits	3,650	3,322
Provision for legal proceedings and claims related to foreign currency mortgage loans	376,410	23,181
Provision for refund of commission fees due to early loan repayment	1,534	1,183
Provision for other liabilities and claims	7,287	2,558
Total	**418,534**	**57,705**

Change in provisions

Item	December 31st 2020	December 31st 2019
Provisions for contingent liabilities		
At beginning of period	**27,461**	**20,798**
recognition of provisions for impairment of off-balance-sheet liabilities	69,108	70,752
reversal of provisions for impairment of off-balance-sheet liabilities	-66,916	-64,079
Other	-	-10
At end of period	**29,653**	**27,461**
Provisions for employee benefits		
At beginning of period	**3,322**	**3,076**
recognition of provisions	638	499
use of provisions	-310	-253
At end of period	**3,650**	**3,322**
Provision for legal proceedings and claims related to foreign currency mortgage loans		
At beginning of period	**23,181**	**2,033**
recognition of provisions	353,021	21,221
accounting for provision discount	614	-
use of provisions	-395	-
reversal of provisions	-11	-73
At end of period	**376,410**	**23,181**

Provision for refund of commission fees due to early loan repayment		
At beginning of period	**1,183**	**-**
recognition of provisions	1,269	1,183
use of provisions	-918	-
At end of period	**1,534**	**1,183**
Provision for other liabilities and claims		
At beginning of period	**2,558**	**9,866**
recognition of provisions	10,565	1,619
use of provisions	-3,700	-8,188
reversal of provisions	-2,136	-739
At end of period	**7,287**	**2,558**
Total provisions at end of period	**418,534**	**57,705**

Present value of future retirement and disability benefit obligations to employees in employment as at December 31st 2020:

Item	December 31st 2020	December 31st 2019
Wage growth rate	**2.5%-3.5% (0% in 2020)**	**2.5% (0% in**
Interest rate for future obligations due to:		
retirement and disability benefits	1.50%	2.00%
Amounts recognised in comprehensive income with respect to the defined benefit plans:		
Cost of benefits:		
Current service cost	536	226
Past service cost and (gain) loss on settlement	295	-
Net interest expense	120	61
Components of defined benefit plan costs recognised in profit or loss	**951**	**287**
Increase (decrease) in net defined benefit obligation:		
Actuarial gains and losses due to changes in financial assumptions	84	143
Actuarial gains and losses due to experience adjustments	158	-40
Components of defined benefit plan costs recognised in other comprehensive income	**242**	**103**
Total	**1,193**	**390**

Defined benefit obligations

Item	December 31st 2020	December 31st 2019
Amounts recognised in comprehensive income with respect to the defined benefit plans:		
At beginning of period	**3,322**	**3,076**
Current service cost	354	335
Interest expense	42	61
(Gains) losses on revaluation:		
Actuarial gains and losses due to changes in financial assumptions	84	143
Actuarial gains and losses due to experience adjustments	158	-40
Benefits paid	-310	-253
At end of period	**3,650**	**3,322**

The calculation of the present value of future retirement and disability benefit obligations relates to the current population of Bank employees and does not take account of any future employees of the Bank. It consists in determining the employees' entitlement to a specified part of the severance benefit in the year following the calculation date using the projected unit credit method of calculating the actuarial present value of future obligations. The present value of an employee's entitlement to a certain part of the future severance benefit was calculated on the assumption that the employee would continue to be employed by the Group until the benefit is paid and was discounted at the moment of calculation.

The vested portion of the benefit entitlement is the quotient of the current length of service of the employee and the length of service required to receive the retirement or disability benefit.

Disability benefits are calculated as the sum of the products of the probabilities of becoming disabled in future years for a person of a certain age and the vested portion of the benefit in each year, over the entire projected period, and are discounted at the time of valuation. The vested portion of the disability benefit in each year is calculated by dividing the current length of service by the length of service in that future year.

The present value of the vested entitlements is calculated assuming an increase in the base amount of severance benefit until payment at the rate of salary increase.

As at December 31st 2020, the discount rate of 1.5% was used to estimate employee benefit obligations. Using the discount rate of 1.75%, employee benefit obligations would amount to PLN 2,933 thousand as at December 31st 2020, and at the discount rate of 1.25% the obligations would amount to PLN 3,020 thousand.

As at December 31st 2019, the discount rate of 2.0% was used to estimate employee benefit obligations. Using the discount rate of 2.25%, employee benefit obligations would amount to PLN 2,730 thousand as at December 31st 2019, while at the discount rate of 1.75% the obligations would amount to PLN 2,805 thousand.

The Group estimates that the outflow of economic benefits resulting from the provision will occur in the presented periods:

Item	December 31st 2020	December 31st 2019
up to 1 year	687	685
from 1 to 5 years	872	837
from 5 to 10 years	885	769
from 10 to 20 years	971	813
over 20 years	235	218
Total	**3,650**	**3,322**

Provisions for court proceedings, claims and reimbursement of commission fees are recognised at the amount of expected outflows of economic benefits in the presented periods:

	January 1st–December 31st 2020		January 1st–December 31st 2019	
	Amount	Expected outflow of benefits	Amount	Expected outflow of benefits
Provision for amounts due to clients	4,820	up to 1 year		
Provision for negative balances in clients' accounts resulting from market settlement of transactions	50	up to 1 year	50	up to 1 year
Provision for other liabilities and claims	2,417		2,508	
	417	up to 1 year	1,717	up to 1 year
	2,000	over 1 year	791	over 1 year
Provision for legal proceedings and claims related to foreign currency mortgage loans	376,410		23,181	
	-	up to 1 year	3,650	up to 1 year
	376,410	over 1 year	19,531	over 1 year
Provision for refund of commission fees due to early loan repayment	1,534		1,183	
	-	up to 1 year	1,183	up to 1 year
	1,534	over 1 year	-	over 1 year
Total	**385,231**		**26,922**	

Total amount of claims under pending proceedings in the periods presented:

Item	December 31st 2020	December 31st 2019
The Group as respondent	91,369	46,469
The Group as claimant	93,506	221,605

In the opinion of the Management Board, materialisation of the risks arising from the proceedings, except for those provisioned for, is probable but not likely. All risks arising from proceedings pending before a court or public administration authority are adequately provisioned for.

As at December 31st 2020, the Bank was not involved in any material proceedings pending before any court, arbitration body or public administration authority where the amount of the Bank's liabilities or claims would represent at least 10% of the Bank's equity.

33. Deferred income tax

Deferred income tax is calculated on all temporary differences using an income tax rate of 19%.

Balance of deferred income tax

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
At beginning of period	**107,643**	**98,268**
Change, including:	**12,813**	**9,375**
impairment losses on receivables	10,722	3,490
valuation of assets	- 15,478	- 692
deferred expenses	- 3,314	4,150
interest received on securities previously purchased by the Bank	- 1,095	- 227
other differences, including difference arising from lease contracts	12,326	- 1,526
tax loss	- 175	870
commission fees accounted for using effective tax rate	1,954	1,944
non-depreciated property, plant and equipment covered by investment tax relief	800	1,827
provisions for material and labour costs	2,078	1,067
accrued income	4,746	- 1,777
IBNR recognised as tax-deductible	249	249
At end of period	**120,456**	**107,643**

Deferred tax recognised in revaluation reserve:

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
At beginning of period	**- 11,187**	**- 13,461**
Change due to measurement of assets	- 4,733	2,274
At end of period	**- 15,920**	**- 11,187**

Deferred tax liabilities and assets are allocated to the following items:

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Deferred tax liabilities arising from:		
accrued income	35,778	38,493
increase on valuation of assets	43,624	32,152
non-depreciated property, plant and equipment covered by investment tax relief	11,889	12,689
lease receivables	24,713	11,893
paid commission fees to be accounted for using effective tax rate	3,233	3,619
IBNR recognised as tax-deductible in previous years	994	1,244
other temporary differences	341	516
Total	**120,572**	**100,606**

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
Deferred tax assets due to:		
non-deductible impairment losses	125,798	115,013
received commission fees to be accounted for using effective tax rate	18,435	16,871
non-current assets from lease contracts	28,470	14,163
provisions for material, labour and other costs	7,764	6,347
deferred expenses	19,205	22,519
interest received on securities previously purchased by the Bank	7,355	8,450
decrease on valuation of assets	24,589	15,776
tax loss	144	1,348
other temporary differences	9,268	7,762
Total	**241,028**	**208,249**

Change in deferred tax in the period

Item	January 1st–December 31st 2020	January 1st–December 31st 2019
At beginning of period	**107,643**	**98,268**
Change in deductible temporary differences	32,781	8,325
Change in taxable temporary differences	- 19,968	1,050
Total change, including:	**12,813**	**9,375**
change in revaluation reserve	- 4,732	2,274
change recognised in profit or loss	17,547	7,100
At end of period	**120,456**	**107,643**

34. Lease liabilities

As a lessee, the Group recognises a lease in the statement of financial position as a right-of-use asset and a corresponding liability on the date on which the leased asset is available for use. Each lease payment is allocated between the reduction of the liability and the finance cost. The finance cost is recognised in the statement of profit or loss over the lease term. The right-of-use asset is depreciated using the straight-line method. Lease liabilities were measured at the present value of future lease payments, discounted using the Company's incremental borrowing rate as at January 1st 2020 of 5%. For contracts concluded in September 2020 and later for up to five years, the rate is 5%, and for contracts concluded for terms of over five to nine years the rate is 5.75%.

As a lessee, the Group leases vehicles and real property.

Leases are typically for terms ranging from 1 to 10 years. Lease terms are negotiated individually.

The lease contracts do not impose any obligations, but the leased assets cannot be used as collateral for borrowings.

Maturity of lease liabilities

Item	December 31st 2020		
	Properties and land	Vehicles	Total
up to 1 year	2,495	209	2,704
from 1 to 5 years	7,235	207	7,442
over 5 years	61,083	-	61,083
Total	**70,813**	**416**	**71,229**

Item	December 31st 2019		
	Properties	Vehicles	Total
up to 1 year	4,361	182	4,543
from 1 to 5 years	11,072	487	11,559
over 5 years	67,082	165	67,247
Total	**82,515**	**834**	**83,349**

Liabilities arising from property lease contracts relate to commercial properties used by the Bank as part of its business activities.

For contracts denominated in the euro, the amount of monthly consideration is the PLN equivalent (calculated at the mid-rate quoted by the National Bank of Poland) of total fees and charges for the leased space, determined as the product of the net price, expressed in EUR per square metre, and the area actually leased, plus VAT.

For contracts denominated in the Polish zloty, the amount of monthly consideration is the total of fees and charges for the leased space, determined as the product of the net price per square metre, and the area actually leased, plus VAT.

Monthly consideration is value-adjusted by the rates and on the dates specified in the lease contracts. The contracts denominated in EUR are value-adjusted using the indices applicable in the European Union. The contracts denominated in PLN are value-adjusted using the consumer price index for the previous period announced by the President of Statistics Poland.

The contracts do not contain options to purchase the property.

The contracts are concluded for a definite period. Some of the contracts are not terminable, but some stipulate early termination or expiry if a party to the contract is dissolved, in which case a period of notice of 6 or 12 months applies. Some of the contracts may be extended on their current terms and conditions based on a declaration of will of the lessor made in writing six months before the expiry of the contract.

The Group applied the exemptions allowed under IFRS 16 for:

1. leases of low-value assets,
2. short-term leases of up to 12 months.
   Low-value lease contracts are contracts where the value of the underlying asset is low, i.e., does not exceed PLN 20 thousand.

Payments under the exempt contracts are recognised as an expense in the statement of profit or loss on a straight-line basis.

Future minimum lease payments under IFRS 16-exempt contracts:

As at December 31st 2020:

Item	Properties	Vehicles	Total
low-value leases	324	466	790
short-term leases	1,388	-	1,388
Total	**1,712**	**466**	**2,178**

As at December 31st 2019:

Item	Properties	Vehicles	Total
low-value leases	78	747	825
short-term leases	1,373	-	1,373
Total	**1,451**	**747**	**2,198**

35. Other liabilities

Item	December 31st 2020	December 31st 2019
Interbank settlements	22,760	17,308
Amounts due to DM BOŚ counterparties	129,581	30,463
Accrued expenses and deferred income	51,231	25,320
Public charges	18,494	8,525
Trade liabilities	65,584	62,169
Deferred commissions	5,904	5,237
Payment card settlements	4,898	10,986
Provision for refund of commission fees due to early loan repayment	3,526	3,489
Other	9,548	23,547
Total	**311,526**	**187,044**

36. Contingent assets and liabilities

Item	December 31st 2020	December 31st 2019
Contingent liabilities:	**2,863,156**	**2,846,868**
Financial, including:	2,490,309	2,538,723
open credit lines, including:	2,464,889	2,513,639
revocable	2,130,346	2,267,427
irrevocable	334,543	246,212
open import letters of credit	20,250	5,839
loan commitments, including:	5,170	19,245
irrevocable	5,170	19,245
Guarantees, including:	372,847	308,145
credit repayment sureties and guarantees	12,739	12,909
performance bonds	360,108	295,236
Contingent assets:	**915,199**	**480,132**
Financial, including:	-	85,170
open lines of credit	-	85,170
Guarantees	899,975	381,445
Other	15,224	13,517
Total contingent assets and contingent liabilities	**3,778,355**	**3,327,000**

Litigation and other proceedings against the Bank concerning reimbursement of part of consumer credit costs on account of early repayment

On September 11th 2019, the ECJ issued a preliminary ruling in case C - 383/18 Lexitor v SKOK Stefczyka, Santander Consumer Bank and mBank, which contains an interpretation of the provisions of Directive 2008/48/EC of the European Parliament and of the Council of April 23rd 2008 on consumer credit agreements and repealing Council Directive 87/102/EEC.

In response to the request for preliminary ruling put forward by the national court, the ECJ ruled that the consumer's right to reduce the total cost of credit on account early repayment of the credit covers all costs imposed on the consumer.

No proceedings are pending against Bank for reimbursement of part of consumer credit costs under the Act on enforcement of claims in class action proceedings of December 17th 2009.

As at December 31st 2020, ten court proceedings were pending against the Bank for reimbursement of consumer credit costs on account of early repayment.

Litigation against the Bank concerning loans denominated in or indexed to foreign currencies

On October 3rd 2019, the Court of Justice of the European Union ("CJEU") issued a preliminary ruling in Case C-260/18 Kamil Dziubak, Justyna Dziubak v Raiffeisen Bank International AG, Vienna, conducting business in Poland in the form of a branch under the name Raiffeisen Bank International AG Branch in Poland, formerly Raiffeisen Bank Polska S.A., with its registered office in Warsaw, which interprets the provisions of Council Directive 93/13/EEC of April 5th 1993 on unfair terms in consumer contracts, in response to questions referred for a preliminary ruling by the referring court after analysing the provisions of a credit agreement indexed to CHF.

According to the verdict, the CJEU did not address the issue of the prohibited nature of contractual clauses, indicating that it is for the national courts to examine the existence of all the indication of abusiveness and to assess contractual provisions in each individual case separately. At the same time, the CJEU did not rule out the possibility that the national court could recognise the possibility of the agreement's continued operation without the indexation mechanism (which would mean that the loan would be treated as a PLN loan bearing interest at LIBOR), however in the CJEU's opinion this solution was deemed to be uncertain. The CJEU ruled out the possibility of supplementing the content of a contract after eliminating abusive clauses with rules stemming from the general provisions of national law. However, the CJEU confirmed that it is possible to fill in gaps in the contract with rules resulting from an express dispositive provision or other rules agreed upon by the parties.

Since the CJEU verdict, there has been an increase in the number of court cases involving loan agreements linked to foreign exchange rates. The reasons for this phenomenon can be found in the intensified marketing campaign by entities representing borrowers in court proceedings, the constant presence of the subject matter in the media, as well as the evolving trends the national case law.

Most of the court judgments issued following the CJEU ruling of October 3rd 2019 are not favourable of banks, but the case law continues to be inconsistent in this respect. Some of the courts hearing cases involving foreign exchange-linked mortgages have made further requests to the CJEU for preliminary fullings. The position of the CJEU in this respect may have an impact on court rulings in the future.

The Bank monitors domestic case law on an ongoing basis when assessing the legal risks of foreign currency-indexed loans and takes into account in its analyses that the CJEU judgment of October 3rd 2019 and rulings by Polish courts in similar cases would increase the number of court proceedings and increase the value of claims sought.

As at the end of 2020, there were 307 court cases pending against the Bank concerning loans and advances denominated mainly in CHF, with the total value of the claims sought of PLN 63,664 thousand. In general, the claimants demand that loan agreements denominated in foreign currencies be recognised as invalid or. alternatively, that the denomination (currency translation) clauses be found/ruled abusive.

At present, it is still difficult to assess the final impact of the CJEU verdict on rulings by national courts in cases relating to loans linked to foreign currencies. A clear position of the Supreme Court could be of major importance in this respect.

A hearing of the full bench of the Supreme Court's Civil Chamber was set for May 11th 2021 (previously scheduled for March 25th and then April 13th) on the response to the legal questions presented by the First President of the Supreme Court, concerning significant issues related to the non-uniform decisions of the courts in cases of loans linked to foreign currencies. The date of the resolution of the panel of seven Supreme Court judges concerning the response to legal issues raised by the Financial Ombudsman, previously announced for April 15th this year, has also been changed to May 7th. The issues raised by the Ombudsman partially overlap with those presented by the First President of the Supreme Court.

The Bank will analyse resolutions of the Supreme Court once they are published, in particular their expected impact on further case law and the value of parameters used to determine the amount of provisions for the legal risk. At this point it is not possible to predict the content of the resolutions and their impact on the estimation of provisions. When determining the amount of the provision, the Bank relies on all information available as at the date of authorisation of the financial statements for issue.

At the same time, in January 2021 a group of banks, including Bank Ochrony Środowiska S.A., acting on the basis of assumptions of the proposal of the Chairman of the Polish Financial Supervision Authority (announced in December 2020), commenced cross-sectoral consultations to establish a catalogue of best practices to seek voluntary settlement with clients whereby loans linked to foreign currencies would be settled as if they had been originally denominated in the Polish zloty with interest accruing at WIBOR plus reasonable margin.

Due to the significant impact of the Settlement Programme prepared in accordance with the assumptions of the PFSA Chairman's proposal on the Bank's financial condition, the Management Board of the Bank submitted to the General Meeting a draft resolution on consent of the shareholders to enter into settlement agreements with consumers and on the rules of establishing and approving the terms of such agreements.

As at the date of these financial statements, the Bank has not implemented a general programme to offer settlements to its clients, and the Settlement Programme has not been voted on at the Annual Meeting. Nevertheless, when estimating the provision for court proceedings and claims for legal risk related to foreign currency mortgage loans, the Management Board of the Bank took into account a scenario where in justified cases settlement agreements are entered into with the Bank’s clients, given the gradual emergence of the jurisprudence line that is unfavourable for banks and the high estimated willingness of the clients to reach agreement with the Bank.

For a description of the provision for legal risk related to loans denominated in or indexed to foreign currencies, see Note 4.6.

37. Brokerage business

The brokerage business is conducted by Dom Maklerski BOŚ S.A.

Below is presented data on financial instruments held in clients' securities accounts, at fair value.

Item	December 31st 2020	December 31st 2019
Securities in book-entry form admitted to trading on a regulated market		
Listed shares and rights to listed shares recorded in securities accounts	7,010,655	5,263,162
Other securities recorded in clients' securities accounts	498,103	417,346
Clients' other financial instruments	234,910	206,883
Property rights listed on the Polish Power Exchange	476,337	552,416
Certificated securities		
Shares	248,950	307,067
Bonds	660,214	1,031,017
Total clients' securities	**9,129,169**	**7,777,891**

38. Common equity

Registered share capital

As of December 31st 2020, the share capital was PLN 929,477 thousand and did not change relative to the amount as at December 31 2019 .

Series/ issue	Type of shares	Type of preference	Number of shares	Par value of series/issue, PLN thousand	Method of payment for shares	Date of registration	Dividend right as of:
A	O	ordinary	236,700	2,367	cash	09-01-91	01-01-92
B	O	ordinary	1,263,300	12,633	cash	11-03-92	01-01-93
C	O	ordinary	477,600	4,776	cash	30-12-92	01-01-93
C	O	ordinary	22,400	224	in-kind	30-12-92	01-01-93
D	O	ordinary	1,300,000	13,000	cash	30-12-93	01-01-94
E	O	ordinary	647,300	6,473	cash	30-06-94	01-01-95
E	O	ordinary	15,500	155	in-kind	30-06-94	01-01-95
E	O	ordinary	37,200	372	in-kind	30-06-94	01-01-95
F	O	ordinary	1,500,000	15,000	cash	30-12-94	01-01-95
G	O	ordinary	1,260,000	12,600	cash	30-06-95	01-01-96
H	O	ordinary	670,000	6,700	cash	30-06-95	01-01-96
I	O	ordinary	70,000	700	cash	30-06-95	01-01-96
J	O	ordinary	1,055,000	10,550	cash	21-06-96	01-01-96
K	O	ordinary	945,000	9,450	cash	21-06-96	01-01-96
L	O	ordinary	1,200,000	12,000	cash	29-11-96	01-01-96
M	O	ordinary	2,500,000	25,000	cash	07-05-98	01-01-97
N	O	ordinary	1,853,000	18,530	cash	13-06-07	01-01-07
O	O	ordinary	1,320,245	13,202	in-kind	25-06-10	01-01-10
P	O	ordinary	6,500,000	65,000	cash	15-06-12	01-01-11
U	O	ordinary	40,000,000	400,000	cash	12-07-17	01-01-16
V	O	ordinary	30,074,426	300,744	cash	04-07-18	01-01-18
Total number of shares			**92,947,671**				
Total par value of share capital				**929,477**			
Total share capital				**929,477**			

Par value of share is PLN 10.

As at December 31st 2020, the total number of voting rights attached to all shares issued by the Bank was 92,947,671 and did not change relative to December 31st 2019.

Each share carries the right to one vote at the General Meeting.

Other shareholders hold in total 27.8% of shares in the Bank's share capital.

As at the date of these full-year consolidated financial statements, no changes in the ownership structure of major holdings were known.

Shareholders holding directly and indirectly 5% or more of total voting rights in the Bank.

Shareholder	December 31st 2020		December 31st 2019	
	Number of voting rights (shares)	% voting interest (ownership interest)	Number of voting rights (shares)	% voting interest (ownership interest)
Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (National Fund for Environmental Protection and Water Management)	53,951,960	58.05	53,951,960	58.05
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Fund for Investments of Polish Enterprises Closed-End Fund for Non-Public Assets)	8,000,000	8.61	8,000,000	8.61
Dyrekcja Generalna Lasów Państwowych (Directorate General of State Forests)	5,148,000	5.54	5,148,000	5.54

Treasury shares

As at December 31st 2020, the Bank held 37,775 treasury shares, representing 0.04% of the share capital and 0.04% of total voting in the Bank, including:

1. 33,095 shares that the Bank acquired in 2012 as part of the stabilization measures related to the issue of Series P shares. These shares represent 0.035% of the share capital and total voting rights in the Bank; in accordance with the Commercial Companies Code, the Bank may not exercise the voting rights attached to the shares;
2. 4,680 shares, representing 0.005% of the share capital and total voting rights in the Bank, acquired by the Bank in the period from June 22nd to July 6th 2015 during trading sessions on the main market of the Warsaw Stock Exchange. The shares were purchased on pursuant to Resolution 34/2015 of the Annual General Meeting dated June 10th 2015 on the Share Repurchase Programme of BOŚ S.A. to be offered to persons holding managerial positions with significant impact on the risk profile of the Bank. Due to the occurrence of circumstances provided for in Resolution No. 258/2011 of the PFSA and the variable remuneration components policy for persons holding management positions at BOŚ S.A., the Supervisory Board of the Bank made a decision to not grant variable remuneration for 2014 to members of the Management Board, and the variable remuneration for other persons holding management positions did not reach the threshold above which a part of the variable remuneration would be required to be paid in shares. Accordingly, the shares acquired for this purpose were not allocated.

In accordance with the Commercial Companies Code, the Bank may not exercise voting rights attached to its own shares.

Share premium

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

As at December 31st 2020 and December 31st 2019, the share premium was PLN 532,181 thousand.

BOŚ BANK 30 lat

39. Revaluation reserve

Item	December 31st 2020	December 31st 2019
Remeasurement of financial assets measured at fair value through other comprehensive income	80,236	55,087
Increase (decrease) in employee benefit obligations	3,553	3,795
Deferred income tax	-15,920	-11,187
Total revaluation reserve	**67,869**	**47,695**

Change in revaluation reserve

Item	
As at January 1st 2020	**47,695**
Increase due to:	298,690
measurement of investment securities	298,690
Decrease due to:	-273,783
measurement of investment securities	-273,541
increase (decrease) in employee benefit obligations	-242
Deferred income tax	-4,733
As at December 31st 2020	**67,869**
As at January 1st 2019	**57,390**
Increase due to:	172,454
measurement of investment securities	172,454
Decrease due to:	-184,423
measurement of investment securities	-184,320
increase (decrease) in employee benefit obligations	-103
Deferred income tax	2,274
As at 31 December 2019	**47,695**

40. Retained earnings

Retained earnings comprise other statutory reserve funds, general risk fund and undistributed profit or loss.

Item	December 31st 2020	December 31st 2019
Other statutory reserve funds	**776,085**	**694,403**
statutory	44,000	44,000
created pursuant to the Articles of Association above the statutory minimum	727,760	646,078
other	4,325	4,325
Other capital reserves	**23,605**	**23,605**
brokerage fund	22,249	22,249
other	1,356	1,356
General risk fund	**48,302**	**48,302**
Undistributed profit (loss)	**- 463,727**	**- 75,111**
retained earnings	- 156,793	- 147,105
net profit (loss) for current period	- 306,934	71,994
Total retained earnings	**384,265**	**691,199**

Statutory reserve funds are created from annual profit appropriations of at least 8% of net profit, until such time as the balance of the funds equals at least one third of the share capital. A portion of the of the reserve funds, amounting to one-third of the share capital, may be used exclusively for offsetting losses disclosed in the financial statements.

Other reserves are created by appropriating net profit for the year, irrespective of the statutory reserve funds, and are earmarked for covering specific losses and expenses.

The General Meeting makes decisions concerning the use of the statutory reserve funds and other reserves.

The general risk fund designated for unidentified risks in the Bank's business is created by appropriating net profit for the year, in accordance with the applicable provisions of the banking law.

On June 17th 2020, the Annual General Meeting of BOŚ S.A. passed a resolution on distribution of the Bank's net profit for 2019.

The Bank's net profit for 2019 of PLN 80,661.76 thousand was allocated to statutory reserve funds.

41.Hedge accounting

Hedge accounting policies

In the Group, hedge accounting was applied by the Bank only.

Hedge accounting is an integral part of the financial risk management process. Financial risk is managed as part of the risk management process in place at the Group.

The Bank hedges the interest rate risk in the banking book The Bank uses fair value hedges to hedge the fair value of fixed-rate Treasury bonds.

Cash flow hedge accounting

As at December 31st 2020, the Group did not apply cash flow hedge accounting.

Fair value hedge accounting

During the hedging period, the Bank hedges the volatility of fair value of fixed-rate bonds , resulting from movements of market interest rates. The hedged item is part of the Treasury bonds held in the HtCS business model. The hedging instrument is an Interest Rate Swap (IRS), under which the Bank makes a payment based on a fixed interest rate and receives a coupon based on a variable rate (6M WIBOR).

By establishing a hedging relationship, the netting effect of changes in the fair value of the hedging instrument and the hedged item is obtained in profit or loss. Only one type of risk (i.e., the risk of interest rate volatility) is hedged. The spread between quote prices of the Treasury bonds and the IRS transactions is not hedged.

The hedge is expected to be highly effective in offsetting fair value changes resulting from the hedged risk. The effectiveness of the hedge is verified by using prospective and retrospective hedge effectiveness tests. The prospective test is based on the analysis of BPV of the hedged item and the hedging instrument. The retrospective test is performed based on the direct offset method, which compares changes in the value of the hedging transaction and the hedged item resulting from changes in the hedged risk. The retrospective test is positive if the offset ratio is within the range <0.8;1,25>.The tests are performed on a quarterly basis. The Bank does not identify any significant sources of ineffectiveness the fair value hedging.

Changes in the fair value of the hedged item resulting from movements of market interest rates are recognised in the statement of profit or loss. Changes in the fair value of the bonds not attributable to changes in the hedged risk are recognised in revaluation reserve. Changes in the measurement of the hedging instrument are recognised in the statement of profit or loss.

As of December 31st 2020, the Bank had one fair value hedge relationship – a hedge established on October 20th 2015. The hedge established in July 2012 terminated due to the maturity of the hedged item, i.e., DS1020, in October 2020. The hedging instrument was reallocated to the trading book.

The hedged item within the hedging relationship established in 2015 includes PLN 240m of State Treasury bonds DS0725, maturing in July 2025.

As at 31 December 2020, an amount of PLN 4,332 thousand resulting from changes in fair value of the bonds due to movements of interest rates and changes in the fair value of the IRS transactions was recognised in profit or loss account. The amount of PLN -6,711 thousand was recognized in the revaluation reserve. It represented the sum of the impact of the bonds on equity as at the date the hedge relationship was established (PLN -11,345 thousand) and the change in the fair value of the bonds resulting from the unhedged part of the risk (spread between the quoted prices of the bonds and the IRS transactions).

Item	December 31st 2020			December 31st 2019		
	carrying amount	nominal value	fair value*\	carrying amount	nominal value	fair value*\
Hedging instruments						
Interest Rate Swap (IRS) – negative valuation	24,497	258,000	22,083	16,869	468,000	13,237
Hedged items						
Treasury bonds – positive valuation	273,804	240,000	26,415	439,183	412,000	17,990
Total effect on profit or loss			**4,332**			**4,753**

*\for the hedged bonds it is an adjustment to the fair value

42. Share-based payments

Remuneration policy for managing personnel at the Group

In order to meet the requirements set out in the Regulation of the Minister of Development and Finance of March 6th 2017 on risk management and internal control systems, remuneration policy and detailed method of calculating internal capital in banks, and in accordance with Directive 2013/36/EU of the European Parliament and of the Council of June 26th 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the Bank implemented a remuneration policy for the managing personnel, approved by the Supervisory Board.

The Remuneration and Nomination Committee, appointed by the Supervisory Board, gives its opinions on and monitors the remuneration policy and supports the Bank's bodies in developing and implementing this policy by:

1. giving opinions on the list of persons with significant influence on the Bank's risk profile and on the annual update of the list,
2. designing remuneration packages for members of the Management Board, including the amount and components of variable remuneration, factors determining variable remuneration and performance evaluation criteria, and recommending them to the Supervisory Board,
3. recommending to the Supervisory Board the award, limitation, withholding, refusal of payment or disbursement of variable remuneration of members of the Management Board,
4. giving opinions on variable remuneration for the managing personnel holding risk-management and compliance positions at the Bank,
5. giving opinions on and monitoring of variable remuneration for the managing personnel holding first- and second-line of defence risk-management positions other than those specified in item 4 above,
6. giving opinions on the remuneration policy of the Group and issuing opinions on assessment of the materiality of the subsidiaries' impact on the risk profile of the Bank.

The key assumptions of the remuneration policy include:

1. payment of at least 50% of the determined variable remuneration in shares of the Bank whose value is calculated as the weighted average price of the Bank shares in session trading on the WSE in the period from December 1st of the year preceding the year in which the variable remuneration is awarded to January 31st of the year in which the variable remuneration is awarded.
   The terms 'shares' is understood to include:
   a. shares of Bank Ochrony Środowiska S.A. listed on the Warsaw Stock Exchange,
   b. virtual, or phantom, shares with a value per phantom share equal to the price of the Bank shares listed on the Warsaw Stock Exchange;
2. payment of 40% of the variable remuneration in three deferred equal annual instalments, with at least 50% of each tranche paid in Bank shares and the balance paid in cash. The deferred part may be suspended, reduced

or not paid or realised at all if the Bank's results differ significantly from the approved financial plan for a given year, or when the circumstance specified in Article 142.1 of the Banking Law occur;

3. performance evaluation covering a three-year period so that the amount of performance-based remuneration takes into account the business cycle of the Bank and the risks involved in its business activity. The term 'performance' is understood to mean actual delivery of productivity, financial. sales and other targets set forth in the Bank's strategy or financial plan for a given year.

In addition, in the reporting period the Remuneration Policy was elaborated to include provisions taking into account a prudent approach to the payment of variable components of remuneration in justified cases, such as the occurrence of a crisis situation or events having an adverse impact on the economy, which may affect the financial market, the capital base of the Bank and/or its financial results. If such events occur, the variable remuneration – regardless of its amount – will be settled in accordance with the following principles:

- 40% of the accrued bonus will be non-deferred variable remuneration, payable in the year when the performance evaluation was made,
- 60% of the accrued bonus will be deferred variable remuneration, which will be divided into four equal tranches. Each tranche will be awarded and paid annually over for a period of four consecutive years following the year in which the non-deferred remuneration was awarded to the eligible person.

At least 50% of both the variable remuneration and each subsequent tranche of the deferred remuneration will paid in Bank shares.

The above results from the position of the PFSA regarding conservative approach to the payment of variable remuneration, published in April 2020.

The maximum amount of variable remuneration for each managing person may not exceed 100% of the person's annual fixed remuneration. The General Meeting of Bank Ochrony Środowiska S.A. may give its consent to increasing the maximum level of variable remuneration up to 200% of the fixed remuneration, in accordance with the procedure provided for in §25(2)(4)(b) and (c) of the Regulation of the Minister of Development and Finance of March 6th 2017 on risk management and internal control systems, remuneration policy and detailed method of calculating internal capital in banks. The increase in the maximum amount of variable remuneration referred to in the preceding sentence does not apply to members of the Management Board.

During the reporting period:

- after the end of the retention period, the phantom shares awarded as part of the variable remuneration for 2018, with a total gross amount of PLN 309.6 thousand (46,790 phantom shares times the price equal to the arithmetic average of the closing prices at the first five sessions after the end of the retention period, i.e., PLN 6.616), were converted into cash and paid out,
- the first (of three) tranche of deferred variable remuneration for 2018 was settled; the total expected cost will amount to PLN 88.1 thousand gross, including payments in phantom shares constituting a short-term benefit to be paid after the lapse of the retention period, i.e. after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 6,229 shares, and the amount of PLN 45.4 thousand gross was paid in cash as a short-term benefit,
- variable remuneration for 2019 for managing persons holding position with a material impact on the Bank's risk profile (including members of the Management Board) was determined. The projected total gross amount of variable remuneration for the Bank's managing personnel for 2019 is PLN 1,408 thousand.
  Of the total amount:
  - the gross amount of PLN 899.4 thousand was paid in cash as a short-term benefit,
  - phantom shares were awarded as a short-term benefit, to be paid after the lapse of the retention period, i.e., after a period of six months from the date of the award of the variable component of remuneration, with the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 31,816 shares with a total gross amount of PLN 217.9 thousand,
  - payment of the gross amount of PLN 290.6 thousand was deferred as a long-term benefit (including: PLN 145.3 thousand gross in cash and PLN 145.3 thousand in Bank shares); once awarded, the deferred tranches will be disbursed in three subsequent years, i.e., 2021, 2022 and 2023, in equal parts, however the disbursement

of each tranche may be withheld or limited if the Bank's results materially deviate from the approved financial plan for a given year or if the circumstance referred to in , section 142.1 of the Banking Law Act occur.

The variable remuneration for 2020 has not yet been determined and awarded.

43. Notes to the statement of cash flows

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include the following highly liquid balances with maturities of less than three months.

Item	December 31st 2020	December 31st 2019
Cash and balances with central bank (Note 19)	266,552	297,866
Deposits with other banks, recognised as cash equivalents (Note 20)	33,328	70,214
Investment securities (Note 22)	2,179,952	1,319,835
Total	**2,479,832**	**1,687,915**

The balance of cash and cash equivalents includes the obligatory reserve maintained in the account with the NBP.

On June 21st 2018, the Management Board of the National Bank of Poland passed a resolution to exempt the Bank from the obligation to maintain 55% of the required minimum reserves. The exemption is effective from July 2nd 2018 to December 31st 2021.

In accordance with Par. 12 of NBP Resolution No. 40/2015, the Bank may use the funds held in the obligatory reserve for current cash settlements.

The amount of the obligatory reserve declared to be maintained in December 2020 was PLN 31,408 thousand (December 2019: PLN 195,497 thousand). The Bank is required to maintain the average cash balance per month above the declared obligatory reserve.

Explanation of differences between changes in the statement of financial position and changes of the corresponding items disclosed in the statement of cash flows from operating activities

Item	for the year ended	
	December 31st 2020	December 31st 2019
Change in amounts due from other banks	10,117	30,371
Change in deposits with other banks, recognised as cash equivalents	- 36,886	- 36,771
Total change in deposits with other banks and amounts due from other banks	**- 26,769**	**- 6,400**
Change in investment securities	- 2,069,336	174,215
Change in investment securities recognised in cash and cash equivalents	860,117	- 119,925
Purchase of securities measured at amortised cost	160,586	-
Interest income on securities measured at amortised cost	- 57,489	- 53,461
Transfer of interest on securities measured at amortised cost to interest on investing activities	54,758	55,577
Remeasurement of financial assets measured at fair value through other comprehensive income	25,149	- 11,866
Total change in investment securities	**- 1,026,215**	**44,540**
Change in other assets and income tax	- 145,828	3,519
Deferred income tax expense disclosed in the statement of profit or l	17,547	7,100
Deferred income tax on measurement of investment securities	- 4,732	2,339
Non-monetary changes in intangible assets and property, plant and equipment	34	- 6,449
Change in other assets and income tax	**- 132,979**	**6,509**
Change in provisions	360,829	21,932
Effect of actuarial valuation on revaluation reserve	- 243	- 103
Total change in provisions	**360,586**	**21,829**
Change in other liabilities and income tax	115,790	- 20,058
Current income tax expense	- 38,728	- 45,294
Income tax paid	55,190	40,917
Other changes	-	97
Total change in other liabilities and income tax	**132,252**	**- 24,338**
Change in liabilities arising from issue of bank securities and subordinated liabilities	- 1,735	46,531
Redemption of bonds, including:	-	- 46,000
on ordinary bonds	-	- 46,000
Interest paid on bonds issued by the Bank, including:	14,440	- 19,184
on subordinated bonds	14,440	- 17,627

on ordinary bonds	-	- 1,557
Interest accrued on bonds issued by the Bank, including:	-12,705	18,653
on subordinated bonds	-12,705	17,686
on ordinary bonds	-	967
Total change in liabilities arising from issue of bank securities	**-**	**-**

44. Description of derivative financial instruments and foreign exchange transactions

Foreign exchange and currency derivatives transactions:

Instrument	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019
	FX Swap		FX Forward		FX Spot	
Description of the instrument	A transaction that obligates the parties to a contract to enter into an initial exchange of currencies on a specified date and at a specified exchange rate and a forward (final) exchange rate for that currency on a specified date in the future (other than the first leg settlement) and at a rate agreed upon at the date of the transaction (usually different from the initial exchange rate). The currency that one counterparty is required to pay to the other as a result of the final exchange is the same currency that the counterparty received in the initial exchange.		A forward transaction to exchange a specified amount of currency for another currency on a specified date, at a fixed forward rate. This is a forward outright contract. All terms and conditions of the transaction are determined on the date of its execution.		A transaction to exchange a specific amount of currency for another currency, at a rate agreed upon at the time of the transaction. Typically, the transaction is settled within two business days of the execution date.	
Purpose of acquisition or issue	for trading/liquidity		for trading		for trading	
Number of transactions	44	44	97	95	7,571,098	122
Notional amount (PLN thousand)	672,825	869,957	220,458	133,027	223,494	210,980
Fair value (PLN thousand)	-13,833	10,263	872	227	88	1
- positive	113	12,526	2,926	763	1,228	117

- negative	-13,946	-2,263	-2,054	-536	-989	-116
Future income / payments	Variable		Variable		Variable	
Average maturity	2021-03-30	2020-05-02	2021-06-12	2020-05-03	2021-01-04	2020-01-02
Early settlement	None		At client's request		None	
Exchange or conversion into another asset/ liability	None		None		None	
Other terms	None		None		None	
Type of risk associated with the derivative instrument	Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk	

Interest rate derivative transactions:

Instrument	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019
	Interest rate swaps (IRS)		Interest rate swaps (IRS hedging PLN)		Interest rate swaps (IRS hedging EUR)		Forward transactions in bonds	
Description of the instrument	A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments made are expressed in the same currency and calculated at a fixed rate for each party (one rate may be fixed and the other variable or both may be variable but depend on different indices). This category also includes IRS transactions whose notional amount changes over time – amortised swaps.		A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments made are expressed in the same currency and calculated at a fixed rate for each party (one rate may be fixed and the other variable or both may be variable but depend on different indices).		A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments made are expressed in the same currency and calculated at a fixed rate for each party (one rate may be fixed and the other variable or both may be variable but depend on different indices).		A forward transaction to buy/sell a specified amount of a security on a specified date at a fixed forward price. All terms and conditions of the transaction are determined on the date of its execution.	
Purpose of acquisition or issue	for trading		as hedge (fair value hedge accounting)		as hedge (cash flow hedge accounting)		for trading	
Number of transactions	207	180	2	7	-	-	-	5
Notional amount (PLN thousand)	5,195,860	4,976,531	258,000	468,000	-	-	-	80,000

Fair value (PLN thousand)	-4,710	-1,924	-24,497	-16,869	-	-	-	120
- positive	73,735	41,988	-	-	-	-	-	120
- negative	-80,638	-45,826	-24,497	-16,869	-	-	-	-
Future revenue / payments	Variable		Variable		Variable		Variable	
Average maturity	2023-10-27	2022-06-29	2025-07-25	2023-05-31	-	-	-	2023-12-12
Early settlement	Generally none, but possible in transactions with non-banking clients where so specified in the contract. Possible, rarely used.		None		None		None	
Exchange or conversion into another asset/ liability	None		None		None		None	
Other terms	None		None		None		None	
Type of risk	Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk	

Forward contracts and options

Instrument	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019	December 31st 2020	December 31st 2019
	Futures contracts for shares and stock indices, foreign exchange rates		Forward contracts for stock indices, exchange rates, commodities		Contracts for difference (CFDs)	
Description of the instrument	A futures share/stock market indices contracts is a standardized transaction that requires cash settlement in the future or the underlying asset's delivery, depending on the share price or the value of the index, foreign exchange rate and position taken.		Forward contracts for sale and purchase of various currencies with determined future settlement date. This type of instrument allows transacting parties to make money on interest rate differences between the currencies in a pair. A standard forward contract is a transaction where the settlement date falls more than two days from the transaction date (a two-day settlement period is typical for spot transactions).		Contracts for difference (CFDs) are derivative instruments. This means that their value depends directly on the value of the underlying instrument on which they are based. The underlying instruments may be both sport market instruments, such as currency pairs, gold or silver, and forward market instruments, such as index futures offered on global exchanges, commodity exchange derivatives, etc. CFDs allow transacting parties to take long or short positions and the outcome is calculated on the basis of the difference in exchange rates only. Trading CFDs therefore does not involve taking a physical position.	
Purpose of acquisition or issue	for trading		for trading		for trading	
Number of transactions	9,183	7,616	1,709,000	63	97,470	280,472
Notional amount (PLN thousand)	83,322	116,883	7,355	25,439	536,623	665,347
Fair value (PLN thousand)	-	-659	-	98	-	18,562
- positive	892	114	-	210	19,402	19,862
- negative	-1,004	-773	-141	-112	-3,969	-1,300
Future revenue / payments	Variable		Variable		Variable	
Maturity	Variable		Variable		Variable	

Early settlement	Yes	Yes	Yes
Price/ Price range	None	None	None
Exchange or conversion into another asset/ liability	None	None	None
Additional collateral	None	None	None
Other terms	None	None	None
Type of risk	Operational risk, equity price risk, currency risk	Operational risk, currency risk, equity price risk, commodity price risk	Operational risk, currency risk, interest rate risk, commodities risk, equity risk

Foreign exchange and currency derivative transactions:

Item	December 31st 2020	December 31st 2019
Notional value	**1,116,777**	**1,213,964**
Total foreign exchange and currency derivative transactions:		
assets	4,267	13,406
liabilities	-16,989	-2,915

Interest rate derivative transactions:

Item	December 31st 2020	December 31st 2019
Notional value	**5,453,860**	**5,524,531**
Total interest rate derivative transactions:		
assets	73,735	42,108
liabilities	-105,135	-62,695

Forward contracts and options:

Item	December 31st 2020	December 31st 2019
Notional value	**627,300**	**807,669**
Total forward and option contracts:		
assets	20,294	20,185
liabilities	-5,114	-2,185

Total derivative financial instruments:

Item	December 31st 2020	December 31st 2019
Notional value	**7,197,937**	**7,546,164**
Total derivative financial instruments:		
assets	98,296	75,699
liabilities	-127,238	-67,795

Offsetting financial assets and financial liabilities

The Group does not offset its financial instruments in financial assets and liabilities recognised in the financial statements.

45. Fair value of financial assets and liabilities

The carrying amount and the fair value of financial assets and liabilities other than measured at fair value disclosed in the financial statements are presented below.

Item	Carrying amount December 31st 2020	Fair value December 31st 2020	Carrying amount December 31st 2019	Fair value December 31st 2019
FINANCIAL ASSETS				
Amounts due from other banks	**155,616**	**158,813**	**165,733**	**169,153**
Amounts due from clients including:	**11,887,297**	**11,751,753**	**12,003,794**	**11,965,167**
amounts due in PLN	9,080,574	8,993,394	9,161,456	9,136,066
amounts due in foreign currencies	2,806,723	2,758,359	2,842,338	2,829,101
Investment securities – measured at amortised cost	**1,535,239**	**1,615,371**	**1,377,384**	**1,423,814**
Debt securities, including:	1,535,239	1,615,371	1,377,384	1,423,814
Treasury securities	1,397,710	1,472,158	1,377,384	1,423,814
other securities	137,529	143,213	-	-
FINANCIAL LIABILITIES				
Amounts due to central bank and other banks	**732,743**	**732,743**	**595,667**	**595,667**
Amounts due to clients, including:	**16,560,715**	**16,583,462**	**14,914,981**	**14,924,644**
institutional clients	6,391,882	6,391,627	5,182,156	5,182,596
retail clients	9,380,943	9,403,399	8,891,460	8,899,773
other clients	72,182	72,182	63,607	63,607
international financial institutions	715,708	716,254	777,758	778,668
Subordinated liabilities	**368,996**	**351,812**	**370,731**	**348,503**

Amounts due from other banks

Amounts due from other banks include interbank deposits, nostro accounts and loans and advances. Fair value of interbank deposits, due to their short-term nature (fixed-rate interbank deposits up to six months) is equal to their carrying amount. Bonds issued by banks were measured at fair value, after accounting for a change in the credit spread calculated on the basis of comparable issues by similar banks.

Amounts due from clients

Amounts due from clients are disclosed net of impairment allowances. Amounts due from clients in the balance sheet are chiefly measured at amortised cost using the effective interest rate (99% of the carrying amount of credit facilities).

The fair value of credit facilities is assumed to be their value resulting from currently estimated future principal and interest cash flows (separately for facilities denominated in foreign currencies and for facilities denominated in PLN) calculated using the effective interest rate for each facility (except for facilities with an undetermined schedule or non-performing loans, for which the fair value is assumed to be the same as carrying amount) and discounted at the average effective interest rate of the facilities granted over the last twelve months. For mortgage loans, account was taken of prepayments. In the case of facilities in foreign currencies, which the Bank ceased to grant, an average effective interest rate on the corresponding facilities denominated in PLN was applied, adjusted for the difference between the rates in specific currencies and PLN.

Investment securities measured at amortised cost

Investment securities measured at amortised cost include Treasury bonds, EIB bonds and BGK bonds guaranteed by the State Treasury and held within the HtC business model. The fair value of the bonds is assumed to be the current valuation derived from quoted market prices plus accrued interest.

Amounts due to central bank and other banks

Amounts due to the central bank as well as liabilities arising from repo transactions are disclosed at carrying amount. Liabilities arising from repo transactions were recognised at carrying amount due to the lack of available market data necessary to calculate the fair value of basic repo transactions of the Bank with the counterparty.

Interbank deposits, due to short maturities, were disclosed at carrying amounts, and the borrowings (principal and interest) were discounted using the average effective interest rate.

Amounts due to clients

Amounts due to clients disclosed in the statement of financial position are measured at amortised cost, using the effective interest rate method. The fair value of amounts due to clients is assumed to be their value resulting from discounting principal and interest for all deposits at the weighted average interest rate that was in effect for deposits accepted in December 2020. In the absence of payment schedules for current accounts, they were recognised at the carrying amount.

Amounts due to international financial institutions (principal and interest) were discounted using the average effective interest rate (for EUR) or the interest rate of the most recent transaction executed in a given currency (for PLN).

Liabilities arising from issue of securities

Liabilities arising from issue of securities are measured at fair value taking into account change in credit spread for PLN-denominated bonds, determined based on the latest issue carried out by the Bank.

Subordinated liabilities

Subordinated liabilities were measured at fair value, with the change in the credit spread determined on the basis of the latest issue made by the Bank.

46. Allocation of financial instruments measured at fair value based on the fair value measurement method

Under IFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When estimating fair value, the Group takes into account the adjustment for counterparty credit risk.

As at December 31st 2020 and December 31st 2019, the Group allocated financial assets and liabilities measured at fair value into three categories (levels) based on the measurement method:

1. Level 1: mark-to-market valuation directly from available quotations of instruments on the market. This applies to quoted equity and debt securities and NBP bills (quotations based on the reference rate),
2. Level 2: mark-to-model valuation approach, with model parameterisation based on active market quotations for the type of instruments concerned or prices obtained in transactions concluded close to the reporting date on normal market terms. Fair value is also determined by reference to other, similar instruments, by analysing discounted cash flow and with other valuation methods commonly used by market participants, and in the case of financial instruments to which no valuation method can be applied – at cost. This applies to unlisted bank securities, equity securities and derivatives (including forward transactions for securities), except where they meet the criteria for allocation to Level 3. Additionally, in the portfolio of assets available for sale DM BOŚ holds shares of an entity for which there is no active market. Due to the above, the fair value of these securities is based on the valuation model developed by the Company and using comparable values for businesses listed on the Warsaw Stock Exchange,
3. Level 3: mark-to-model valuation approach, with model parameterisation based on active market quotes for a given type of instruments and the model parameters based on estimated risk factors. This applies to municipal securities (measured using the discounted cash flows method, with credit spreads used in the valuation determined on the basis of internal ratings), securities of other banks (prices are determined based on the margins of securities quoted in the market at the time of price determination, issued by selected issuers), unlisted equity securities and illiquid equity securities (measured using the discounted cash flows method). In the case of DM BOŚ are financial instruments acquired with the intention to introduce them to regulated trading. Fair value is determined based on an analysis of the company's financial position, taking into account impairment losses.

BOŚ BANK 30 lat

Financial instruments by fair-value hierarchy level:

December 31st 2020	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**15,217**	**97,917**	**-**	**113,134**
debt securities	805	-	-	805
equity securities	13,985	47	-	14,032
derivative financial instruments	427	97,870	-	98,297
Derivative hedging instruments	**-**	**-**	**-**	**-**
Investment securities measured at fair value through other comprehensive income and profit or loss	**4,385,236**	**153,634**	**1,297,305**	**5,836,175**
debt securities	4,366,693	153,634	1,230,368	5,750,695
equity securities	18,543	-	66,937	85,480
Amounts due from other banks	**-**	**-**	**158,813**	**158,813**
Amounts due from clients	**-**	**-**	**11,751,753**	**11,751,753**
Investment securities measured at amortised cost	**1,615,371**	**-**	**-**	**1,615,371**
Total	**6,015,824**	**251,551**	**13,207,871**	**19,475,246**

December 31st 2020	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	**790**	**102,526**	**-**	**103,316**
derivative financial instruments	215	102,526	-	102,741
equity securities	575	-	-	575
Derivative hedging instruments	**-**	**24,497**	**-**	**24,497**
Amounts due to other banks	**-**	**-**	**732,743**	**732,743**
Amounts due to clients	**-**	**-**	**16,583,462**	**16,583,462**
Subordinated liabilities	**-**	**-**	**351,812**	**351,812**
Total	**790**	**127,023**	**17,668,017**	**17,795,830**

Changes in securities measured at fair value through other comprehensive income	Level 3
At beginning of period January 1st 2020	**305,126**
Purchase	1,385,613
Sale and redemption	-405,181
Total gains and losses	11,746
in profit or loss	- 6,799
in other comprehensive income	18,545
At end of period December 31st 2020	**1,297,304**

December 31st 2019	Level 1	Level 2	Level 3	Total
Financial assets held for trading – debt securities	**64,598**	**47**	**-**	**64,645**
debt securities	44,534	-	-	44,534
equity securities	20,064	47	-	20,111
Derivative financial and hedging instruments	**113**	**75,586**	**-**	**75,699**
Investment securities measured at fair value through other comprehensive income	**3,619,568**	**-**	**305,126**	**3,924,694**
debt securities	3,601,025	-	238,159	3,839,184
equity securities	18,543	-	66,967	85,510
Amounts due from other banks	**-**	**-**	**169,153**	**169,153**
Amounts due from clients	**-**	**-**	**11,965,167**	**11,965,167**
Investment securities measured at amortised cost	**1,423,814**	**-**	**-**	**1,423,814**
Total	**5,108,093**	**75,633**	**12,439,446**	**17,623,172**

December 31st 2019	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	**347**	**67,448**	**-**	**67,795**
Derivative financial and hedging instruments	347	67,448	-	67,795
Amounts due to other banks	**-**	**-**	**595,667**	**595,667**
Amounts due to clients	**-**	**-**	**14,924,644**	**14,924,644**
Subordinated liabilities	**-**	**-**	**348,503**	**348,503**
Total	**347**	**67,448**	**15,868,814**	**15,936,609**

Changes in securities measured at fair value through other comprehensive income	Level 3
At beginning of period January 1st 2019	**318,109**
Purchase	50,035
Sale and redemption	-60,967
Total gains and losses	
in profit or loss	-8,846
in other comprehensive income	6,795
At end of period December 31st 2019	**305,126**

Financial instruments may be reallocated between Level 1 and Level 2 based on the availability of quotations from an active market at the reporting date.
An instrument is reallocated from Level 2 to Level 3 when valuation changes from an observable factor to an unobservable factor or when a new unobservable risk factor is applied to the valuation that simultaneously results in a significant effect on the valuation of the instrument.
An instrument is reallocated Level 3 to Level 2 when valuation changes from an unobservable factor to an observable factor or when the effect of the unobservable factor on the valuation of the instrument ceases to be significant.
Reallocations between the measurement methods take place on the date and as at the end of the reporting period.

In the period from January 1st to December 31st 2020, there were no reallocations of instruments between the levels.
Measurement of Level 3 instruments does not affect the statement of profit or loss. The fair value measurement of Level 3 instruments is disclosed in other comprehensive income. Net profit (loss) includes accrued interest, interest paid, discount or premium, foreign exchange differences and reversed provisions (in the case of equity securities).
As at December 31st 2020, the sensitivity of the valuation of municipal instruments allocated to Level 3 to a +/- 1 bp change in the credit spread (unobservable model parameter) was PLN 51 thousand (December 31st 2019: PLN 69 thousand).

47. Segment reporting

In accordance with IFRS 8, operating segments are determined on the basis of internal reports on components of an enterprise that are subject to periodic reviews by the management responsible for taking operational decisions. IFRS 8 defines an operating segment is a component of an entity:

1. that engages in business activities from which it may earn revenues and incur expenses,
2. whose operating results are regularly reviewed by the entity's chief operating decision maker,
3. for which discrete financial information is available.

The following is the policy for segment reporting applied in the periods ended December 31st 2020 and December 31st 2019, by the following lines of business:

1. institutional clients,
2. retail clients,
3. treasury and investments,
4. brokerage business,
5. other (not allocated to the segments).

The Institutional Client business line covers transactions made through Business Centres, branches and the Bank's Head Office with corporate clients, small and medium-sized enterprises and micro-enterprises. The Retail Clients business line includes transactions with private individuals.

The Treasury and Investments business line includes transactions on the interbank market as well as transaction in debt securities, derivatives, and equity investments. Treasury and investment activities include management of the Bank's liquidity, foreign exchange and interest rate risks and fund transfer pricing settlements with other business divisions (segments).

Brokerage activities include services for retail and institutional clients.

Other activities (not allocated to segments) include items of the statement of profit or loss that are not allocated to any of the business areas listed in items 1-4, in particular income and expenses related to unclassified clients.

The financial data of BOŚ Leasing–EKO Profit S.A. and MS Wind Sp. z o.o. are classified into the institutional client segment.

The treasury and investment products include financial instruments, current and term deposits, interbank deposits and deposits from ALM clients, loans from other banks and loans granted to banks, debt and equity securities, and derivatives.

Brokerage activities mainly involve purchase and sale of securities for the banking book and for the trading book, maintaining securities accounts, fee-based management of third parties' securities portfolios, and offering securities the primary market or through initial public offerings.

Assets and liabilities of the areas specified in items 1-2 above have been separated on the basis of the Bank's lending and deposit base.

Net interest income includes transfer settlements between the Institutional client segment, the retail client segment, and the treasury and investment business. Transfer measurement of funds is based on reference rates and additional funding rates, taking into account currency, stability of funds and maturities, which are referenced to the yield curve. All relevant assets and interest-bearing liabilities, as well as off-balance sheet items that generate demand for liquidity are subject to transfer rates measurement. Measurement is performed on a monthly basis and is based on the (daily) average of individual interest-rate transactions allocated to a given division separately for each currency.

The operating result of the institutional client segment and the retail client segment is the result on banking activity of these divisions less administrative costs directly attributable to the segments' transactions or units and less costs and loss allowances allocated to the segments. The financial result also includes intersegment settlements arising

from services provided to institutional clients by the Bank's branches (whose primary focus is the provision of services to retail clients).

Segment's net finance income (costs) comprises:

1. Net interest income, i.e., the sum of the difference between interest income on credit facilities and municipal bonds from clients and cost of funds received from ALM (treasury and investment activity) and income from the transfer of funds to ALM less interest expenses paid to the Bank's clients.
2. Net fee and commission income, i.e., the difference between fee and commission income and expenses allocated to a given transaction and allocated to the business area. The net result includes income and expenses both recognised on a one-off basis and accounted for on a straight-line basis, while transaction-related income and expenses accounted for at the effective interest rate are recognised in net interest income.
3. Gain (loss) on foreign exchange transactions, i.e., income on negotiated FX transactions (forwards and spots) and income on foreign exchange according to the Bank's exchange rate table. The item includes gain (loss) on derivative transactions.
4. Net impairment losses and measurement of receivables at fair value through profit or loss, i.e., gain (loss) on changes in impairment losses on loans, municipal and corporate bonds, and gain (loss) on loans, municipal and corporate bonds measured at fair value allocated to a given business area. The result includes changes in the portfolio of impaired foreign currency loans due to exchange rate fluctuations.

The financial result of the treasury and investment business area is the sum of the results of the treasury and equity investment business areas of the Bank, which include:

1. Interest income – calculated as the sum of interest income on transactions with external clients and the result of transfer pricing settlements between funds and other segments. External interest income and expense relate to transactions on the interbank market (deposits and loans), as well as debt securities purchased and issued. The result on transfer pricing settlements of funds is the difference between income from financing of assets of other segments and transfer costs for deposits received from other segments.
2. Gain (loss) on foreign exchange transactions includes gain (loss) on foreign exchange trading transactions, remeasurement of the provision for foreign-currency loans, and changes in the measurement of active currency forward hedges. This item includes gain (loss) of foreign exchange transactions not allocated to other segments.
3. Gain (loss) on hedge accounting includes gain (loss) on cash-flow hedging transactions and fair-value hedging transactions.
4. Gain (loss) on financial instruments measured at fair value through profit or loss, gain (loss) on transactions in the trading book and on transactions in financial instruments, including FX swaps.
5. Gain (loss) on investment securities – gain (loss) on shares and debt securities and on measurement of financial instruments.
6. Dividend income.
7. Difference in value of impairment allowances, gain (loss) on shares and exposures to financial institutions allocated to the treasury and investment business area.

Below are presented the financial results of the Group for the periods ended December 31st 2020 and December 31st 2019 attributable to the reportable segments.

No.	Selected items of the statement of profit and loss for the 12 months ended December 31st 2020	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	BROKERAGE BUSINESS	OTHER (NOT ALLOCATED TO SEGMENTS)	GROUP
I.	**Net interest income**	**202,798**	**57,102**	**110,559**	**1,504**	**- 983**	**370,980**
1.	Interest income and similar income, including:	376,436	226,171	- 75,916	3,132	18	529,841
	transactions with external clients	315,443	108,232	94,414	493	-	518,582
	transactions with other segments	60,993	117,939	- 170,330	2,639	18	11,259
2.	Interest expense and similar charges, including:	- 173,638	- 169,069	186,475	- 1,628	- 1,001	- 158,861
	transactions with external clients	- 22,874	- 96,298	- 27,763	- 667	-	- 147,602
	transactions with other segments	- 150,764	- 72,771	214,238	- 961	- 1,001	- 11,259
II.	**Net fee and commission income**	**52,198**	**8,670**	**2**	**74,636**	**- 916**	**134,590**
III.	Dividend income	679	-	5,526	57	-	6,262
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	15	18	17,613	56,815	-	74,461
V.	Gain (loss) on hedge accounting	-	-	- 2,038	-	-	- 2,038
VI.	Gain (loss) on investment securities	-	-	4,239	-	-	4,239
VII.	Gain (loss) on foreign exchange transactions	13,386	2,981	9,905	142	- 18	26,396
VIII.	**Net banking income**	**269,076**	**68,771**	**145,806**	**133,154**	**- 1,917**	**614,890**
IX.	Net other income and expenses	- 259	605	- 6	- 8,124	316	- 7,468
X.	Legal risk costs of mortgage loans denominated in foreign currencies	-	- 353,021	-		-	- 353,021
XI.	Net impairment losses	- 110,562	- 50,718	- 2,513	-	-	- 163,793
XII.	**Net finance income (costs)**	**158,255**	**- 334,363**	**143,287**	**125,030**	**- 1,601**	**90,608**
1.	Direct costs	- 25,289	- 23,229	-	- 69,854	- 1,329	- 119,701
	Profit (loss) after direct costs	**132,966**	**- 357,592**	**143,287**	**55,176**	**- 2,930**	**- 29,093**
2.	Indirect costs and mutual services	- 71,172	- 73,768	- 15,141	-	-	- 160,081
	Profit (loss) after direct and indirect costs	**61,794**	**- 431,360**	**128,146**	**55,176**	**- 2,930**	**- 189,174**
3.	Amortisation/depreciation	- 18,453	- 22,776	- 1,929	- 8,043	- 1,704	- 52,905
5.	Other costs (taxes, BFG, PFSA)	- 21,793	- 17,203	- 216	- 4,186	- 276	- 43,674

XIII.	**Profit (loss) before tax**	**21,548**	**- 471,339**	**126,001**	**42,947**	**- 4,910**	**- 285,753**
XIV.	Allocated profit (loss) of ALM	69,595	56,596	- 126,191	-	-	-
XV.	**Gross profit (loss) after ALM allocation**	**91,143**	**- 414,743**	**- 190**	**42,947**	**- 4,910**	**- 285,753**
XVI.	Income tax expense						- 21,181
XVII.	**Net profit (loss)**						**- 306,934**
	Segment assets	**8,547,095**	**3,462,215**	**7,751,346**	**364,708**	**380,465**	**20,505,829**
	including amounts due from banks and clients	8,388,076	3,462,215	173,719	16,304	2,599	12,042,913
	Segment liabilities	**5,859,406**	**8,414,930**	**3,858,283**	**1,687,448**	**685,762**	**20,505,829**
	of which amounts due to banks and clients	5,848,554	8,414,930	1,534,334	1,420,877	74,763	17,293,458
	Expenditure on property, plant and equipment and intangible assets	**14,925**	**15,226**	**1,920**	**6,382**	**21**	**38,474**

No.	Selected items of the statement of profit and loss for the 12 months ended December 31st 2019	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	BROKERAGE BUSINESS	OTHER (NOT ALLOCATED TO SEGMENTS)	GROUP
I.	**Net interest income**	**204,683**	**87,238**	**122,356**	**6,955**	**-1,245**	**419,987**
1.	Interest income and similar income, including:	483,441	303,848	-154,633	9,736	17	642,409
	transactions with external clients	378,530	121,686	126,375	999	-	627,590
	transactions with other segments	104,911	182,162	-281,008	8,737	17	14,819
2.	Interest expense and similar charges, including:	-278,758	-216,610	276,989	-2,781	-1,262	-222,422
	transactions with external clients	-46,887	-126,248	-33,214	-1,201	-53	-207,603
	transactions with other segments	-231,871	-90,362	310,203	-1,580	-1,209	-14,819
II.	**Net fee and commission income**	**53,433**	**7,518**	**1**	**38,816**	**-1,395**	**98,373**
III.	Dividend income	-	-	6,277	157	-	6,434
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	1,428	221	13,817	29,491	-	44,957
V.	Gain (loss) on hedge accounting	-	-	-42	-	-	-42
VI.	Gain (loss) on investment securities	-	-	582	-	-	582
VII.	Gain (loss) on foreign exchange transactions	11,538	3,313	1,918	-166	-100	16,503
VIII.	**Net banking income**	**271,082**	**98,290**	**144,909**	**75,253**	**-2,740**	**586,794**
IX.	Net other income and expenses	2,692	- 850	-	- 939	9,602	10,505
X.	Legal risk costs of mortgage loans denominated in foreign currencies	-	- 21,221	-	-	-	- 21,221
XI.	Net impairment losses	-62,943	-42,650	1,057	-	-	-104,536
XII.	**Net finance income (costs)**	**210,831**	**33,569**	**145,966**	**74,314**	**6,862**	**471,542**
1.	Direct costs	-27,497	-27,215	-	-55,919	-1,175	-111,806
	Profit (loss) after direct costs	**183,334**	**6,354**	**145,966**	**18,395**	**5,687**	**359,736**
2.	Indirect costs and mutual services	-66,783	-65,952	-12,670	-	-	-145,405
	Profit (loss) after direct and indirect costs	**116,551**	**-59,598**	**133,296**	**18,395**	**5,687**	**214,331**
3.	Amortisation/depreciation	-20,226	-24,045	-2,102	-7,896	-1,389	-55,658
5.	Other costs (taxes, BFG, PFSA)	-24,257	-20,547	-157	-3,180	-344	-48,485
XIII.	**Profit (loss) before tax**	**72,068**	**-104,190**	**131,037**	**7,319**	**3,954**	**110,188**
XIV.	Allocated profit (loss) of ALM	62,037	65,407	-127,444	-	-	-

XV.	**Gross profit (loss) after ALM allocation**	**134,105**	**-38,783**	**3,593**	**7,319**	**3,954**	**110,188**
XVI.	Income tax expense						-38,194
XVII.	**Net profit (loss)**						**71,994**
	Segment assets	**8,647,982**	**3,553,302**	**5,873,906**	**249,353**	**162,454**	**18,486,997**
	including amounts due from banks and clients	8,445,284	3,553,302	153,235	17,706	-	12,169,527
	Segment liabilities	**4,827,108**	**8,377,446**	**4,027,333**	**928,332**	**326,778**	**18,486,997**
	of which amounts due to banks and clients	4,813,405	8,377,446	1,438,635	816,508	64,654	15,510,648
	Expenditure on property, plant and equipment and intangible assets	**14,890**	**15,345**	**1,661**	**6,661**	**1,116**	**39,673**

48. Related-party transactions

As at December 31st 2020, Bank Ochrony Środowiska S.A. was the parent of Dom Maklerski BOŚ S.A., BOŚ Leasing– EKO Profit S.A., as well as MS Wind Sp. z o.o.

The National Fund for Environmental Protection and Water Management (NFOŚiGW) was the parent of the Bank.

The key management personnel are also considered to be related parties.

Transaction with the National Fund for Environmental Protection and Water Management, i.e., the main shareholder of the Bank

As at December 31st 2020, the amount of funds provided by the NFOŚiGW for preferential loans under the Prosument programme for the financing of purchase and installation of renewable energy sources was PLN 15,554 thousand (December 31st 2019: PLN 23,966 thousand).

In 2020, the NFOŚiGW did not subsidise clients' interest payments. In the 12 months ended December 31st 2019, the amount of such subsidies was PLN 232 thousand.

NFOŚiGW is a party related to the State Treasury. The Bank enters into transactions with entities related to the State Treasury, mainly with entities operating in the public finance sector.

Loans to and deposits from members of the Management Board and the Supervisory Board of the Group

As part of the operating activities, transactions with members of the management body and the key management personnel comprise mainly loans and deposits. The balances of individual items of the statement of financial position as at December 31st 2020 and December 31st 2019 as well as income and expenses for the 12 months ended December 31st 2020 and December 31st 2019 are presented below:

Key management personnel

Item	December 31st 2020	December 31st 2019
Loans	354	2
Line-of-credit commitments	5	-
Deposits	2,311	2,118
Total	**2,670**	**2,120**

Item	December 31st 2020	December 31st 2019
Interest expense on deposits	21	24
Interest income on loans	3	-

The credit and deposit products were provided to the key management personnel on the same terms as those offered by the Bank to the general public.

BOŚ BANK 30 lat

Remuneration of the key management personnel of the Bank

Supervisory Board	Remuneration		For serving on governing bodies of subordinated entities	
	paid for 2020	paid for 2019	paid for 2020	paid for 2019
Janina Goss	126	120	-	-
Andrzej Matysiak [7]	116	135	-	-
Leszek Banaszak [2]	25	-	-	-
Piotr Wróbel [1]	50	-	-	-
Marzena Koczut [2]	21	-	-	-
Robert Czarnecki [2]	25	-	-	-
Przemysław Bednarski [4]	25	-	-	-
Marcin Jastrzębski [3]	43	-	-	-
Piotr Sadownik [8]	107	121	-	-
Emil Ślązak	75	82	-	-
Wojciech Wardacki	181	169	-	-
Iwona Duda [5]	47	119	-	-
Ireneusz Purgacz	131	62	-	-
Radosław Rasała [9]	78	63	-	-
Paweł Sałek	131	64	-	-
Katarzyna Lewandowska [6]	66	73	-	-
Marian Szołucha [10]	-	55	-	-
Dariusz Wasilewski [10]	-	57	-	-
Total [11]	**1,247**	**1,120**	**-**	**-**

[1] Member of the Supervisory Board from August 5th 2020
[2] Member of the Supervisory Board from October 19th 2020
[3] Member of the Supervisory Board from August 25th 2020
[4] Member of the Supervisory Board from August 5th 2020 to October 17th 2020
[5] Member of the Supervisory Board until May 12th 2020
[6] Member of the Supervisory Board until June 15th 2020
[7] Member of the Supervisory Board until October 19th 2020
[8] Member of the Supervisory Board until November 6th 2020
[9] Member of the Supervisory Board until August 5th 2020
[10] Member of the Supervisory Board until June 18th 2019
[11] All payments were short-term employee benefits.

The total amount of remuneration paid to members of the Supervisory Board in 2020 included remuneration of Supervisory Board members, reimbursement of overpaid social security contributions and PPK contributions paid by BOŚ S.A.

Management Board	Remuneration		For serving on governing bodies of subordinated entities	
	paid for 2020	paid for 2019	paid for 2020	paid for 2019
Wojciech Hann [1]	93	-	-	-
Bogusław Białowąs [2]	653	744	-	-
Marzena Koczut [5]	16	-	-	-
Konrad Raczkowski [3]	89	423	-	-
Arkadiusz Garbarczyk	853	670	-	-
Emil Ślązak [4]	254	177	-	-
Jerzy Zań	526	77	-	-
Total	**2,484**	**2,091**	**-**	**-**
including:				
– short-term employee benefits;	2,024	1,981	-	-
– long-term employee benefits	-	-	-	-
– post-employment benefits	150	110	-	-
– termination benefits	-	-	-	-
– share-based payments (phantom shares)	310	-	-	-

[1] Member of the Management Board from November 9th 2020
[2] Member of the Management Board until 17 June 2020
[3] Member of the Management Board until 18 June 2019
[4] Member of the Management Board from June 18th to November 9th 2020
[5] Member of the Management Board from December 21st 2020

The total amount of remuneration paid to members of the Bank's Management Board in 2020 included remuneration under management services contracts, post-employment benefits, and contributions to the Employee Capital Plan paid by BOŚ S.A.

49. Disposal, liquidation and merger of companies

There were no business combinations, acquisitions or sale of subsidiaries in the Group in 2020. No long-term equity investments were made, none of the subsidiaries was subject to restructuring and none of the subsidiaries ceased trading in 2020.

50. Dividends paid (aggregate or per share) separately for ordinary shares and other shares

No dividend was paid or declared in 2020.

On June 17th 2020, the Annual General Meeting of Bank Ochrony Środowiska S.A. allocated the Bank's net profit for the period January 1st – December 31st 2019 of PLN 80,662 thousand to statutory reserve funds.

51. Events after the reporting date

Changes in the composition of the Management Board and the Supervisory Board

At its meeting on February 10th 2021 (Current Report No. 3/2021) the Supervisory Board passed resolutions to:

- appoint Ms Marzena Koczut as Vice President of the Management Board of the Bank with effect as of February 10th 2021,
- appoint Mr Robert Kasprzak as Vice President of the Management Board of the Bank with effect as of February 15th 2021.

On February 10th 2021, Ms Marzena Koczut, member of the Supervisory Board, tendered her resignation from the Supervisory Board (Current Report No. 4/2021) upon her appointment as Vice President of the Management Board of the Bank.

On March 3rd 2021, the Polish Financial Supervision Authority gave a unanimous consent to the appointment of Mr Wojciech Hann as President of the Management Board (Current Report no. 7/2021). Accordingly, at its meeting held on March 3rd 2021, the Supervisory Board passed a resolution to appoint Mr Wojciech Hann as President of the Management Board of the Bank for a joint three-year term of office, which commenced on June 18th 2020, i.e., on the day following the date of approval of the Bank's financial statements for the year ended December 31st 2019. Pending consent of the Polish Financial Supervision Authority, Mr Wojciech Hann served as Vice President of the Bank and managed the work of the Management Board.

Calculation of minimum requirement for own funds and eligible liabilities (MREL)

On February 23rd 2021, BOŚ S.A. received from the Bank Guarantee Fund ("BFG") a letter informing the Bank about the new designated MREL level, based on the Bank's financial data as at December 31st 2020 (Current Report no. 5/2021).

On a consolidated basis, the target MREL for the Bank is 12.75% of the total risk exposure amount and 4.50% of the total exposure measure (including 12.35% of the total risk exposure amount and 4.48% of the total exposure measure for own funds and subordinated liabilities).

In the same letter, a linear path was mapped for MREL to reach 11.87% and 12.31% of the total risk exposure amount on January 1st 2022 and January 1st 2023, respectively (and 3% and 3.75%, for the total exposure measure, respectively).

The Bank should meet the interim levels by the end of the calendar year during the period of reaching the MREL target.

The Bank is required to meet the MREL targets as of January 1st 2024.

The BFG also informed the Bank that in each subsequent calendar year the Fund will review the forced restructuring plan and adjust the target MREL to the changing capital requirements of the Bank. The Bank should maintain the level of MREL expressed as a percentage of TREA and TE on a continuous basis, i.e., in line with the changing value of the Bank's TREA and TE.

Affirmation of credit ratings

On March 16th 2021, Fitch Ratings (the Agency) affirmed its rating (Current Report No. 9/2021) and maintained the outlook.

The ratings are presented below:
- Long-term Foreign Currency IDR was affirmed at BB-, with negative outlook,
- Short-term Foreign Currency IDR was affirmed at B,
- National Long-term Rating was affirmed at BBB- (pol), with negative outlook,
- National Short-term Rating was affirmed at F3 (pol),
- Viability Rating was affirmed at bb-,
- National senior unsecured bond rating was affirmed at BBB- (pol),
- National short-term senior unsecured bond rating was affirmed at F3 (pol),
- Subordinated bond rating was affirmed at BB (pol).

The definitions of ratings are available on the Agency's website at https://www.fitchratings.com.

The affirmation of the ratings reflects the Agency's view that the legal risk associated with the Bank's existing foreign currency mortgage exposures has increased since the Bank's last ratings review. However, the final effect on profit or loss is still highly uncertain. The Agency also expects that more information will be available after the announcement of the Supreme Court judgments and after the Bank makes final decisions regarding its participation in the voluntary conversion programme as proposed by the Chairman of the Polish Financial Supervision Commission.

Signatures of Members of the Management Board

Date	Name and surname	Position held	Signature
April 28th 2021	Wojciech Hann	President of the Management Board	Signed with qualified e-signature
April 28th 2021	Arkadiusz Garbarczyk	Vice President of the Management Board – First Deputy President of the Management Board	Signed with qualified e-signature
April 28th 2021	Robert Kasprzak	Vice President of the Management Board	Signed with qualified e-signature
April 28th 2021	Marzena Koczut	Vice President of the Management Board	Signed with qualified e-signature
April 28th 2021	Jerzy Zań	Vice President of the Management Board	Signed with qualified e-signature

Signature of the person in charge of bookkeeping:

April 28th 2021	Andrzej Kowalczyk	Director of the Accounting Department	Signed with qualified e-signature