

**Report
on the Operations of Supervisory Board
of Bank Ochrony Środowiska S.A.
for 2019**

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In the reporting period, the Supervisory Board of Bank Ochrony Środowiska S.A. – in accordance with legal requirements and with the Articles of Association of BOŚ S.A. – permanently supervised the activity of the Bank.

1. Composition of Supervisory Board in 2019

In 2019, the date of the Ordinary General Meeting, i.e. 18 June 2019, was the end-date of the 10th term of the Supervisory Board, composed of 8 persons and the start-date of the 11th term of the Supervisory Board composed of 10 persons.

As at 31 December 2018 the composition of the Supervisory Board was as follows:

- 1) Wojciech Wardacki - Chairman of Supervisory Board
- 2) Andrzej Matysiak - Vice Chairman of Supervisory Board
- 3) Emil Ślązak – Secretary of Supervisory Board
- 4) Iwona Duda
- 5) Janina Goss
- 6) Piotr Sadownik
- 7) Marian Szołucha
- 8) Dariusz Wasilewski

The Ordinary General Meeting of the Bank convened on 18 June 2019 appointed the Supervisory Board of the 11th term with the following composition:

- 1) Iwona Duda
- 2) Janina Goss
- 3) Katarzyna Lewandowska
- 4) Andrzej Matysiak
- 5) Ireneusz Purgacz
- 6) Radosław Rasała
- 7) Piotr Sadownik
- 8) Paweł Sałek
- 9) Emil Ślązak¹
- 10) Wojciech Wardacki

The Supervisory Board was appointed in such a way that:

- Mr Wojciech Wardacki was elected Chairman of the Supervisory Board,
- Ms Katarzyna Lewandowska was elected Vice Chair of the Supervisory Board,
- Mr Andrzej Matysiak was elected Secretary of the Supervisory Board.

¹ Mr Emil Ślązak, Member of the Supervisory Board and Member of the Internal Audit Committee and of the Risk Committee, during the period from 18 June through 18 September 2019 and during the period from 20 September through 3 November 2019 was delegated to temporarily fulfil the duties of the Bank Management Board Member.

2. Number of Supervisory Board Meetings in 2019

While fulfilling their duties related to ongoing monitoring of the Bank's operations in 2019 the Supervisory Board held 13 meetings on the following dates:

- 22 January,
- 26 February,
- 11 March,
- 10 April
- 24 April,
- 15 May,
- 18 June,
- 02 July,
- 11 September,
- 25 September,
- 06 November,
- 11 December,
- 17 December.

Additionally, in 2019 the Supervisory Board held two voting sessions outside meetings, adopting relevant resolutions in matters under consideration.

3. Major Activities of Supervisory Board in 2019

In 2018 actions of BOŚ S.A. Supervisory Board involved both issues specified in the Annual Activity Plan of the Supervisory Board and issues arising from Bank's ongoing operations.

Major issues which the Supervisory Board worked on in 2019 include:

- 1)** recruitment process for the position of the Bank Management Board Vice President, as a result of the resignation filed on 18 June 2018 by the Management Board Vice President in charge of the Bank's Business Operations;
- 2)** regular evaluation of the Bank's situation upon the lapse of subsequent months and quarters, including:
 - monitoring of progress of the Recovery Proceedings Program;
 - monitoring of Bank's commitment to the financing of wind farms;
 - evaluation of the manner of managing individual types of banking risk;
 - evaluation of results of Bank's pro-ecology activities;
 - evaluation of results of internal audits and external controls;
- 3)** consideration and evaluation of financial statements of the Bank and of BOŚ S.A. Capital Group for 2018 and Bank Management Board's reports on the activity of the Bank and of BOŚ S.A. Capital Group for 2018, as well as consideration and

expression of opinions on materials submitted to BOŚ S.A. Ordinary General Meeting held on 18 June 2019;

- 4)** consideration and approval of a series of documents submitted to the Supervisory Board by the Management Board of the Bank, in particular:
- “Bank Ochrony Środowiska S.A. Banking risk management strategy” and policies regarding management of individual risk types, including: “Concentration risk management policy”, “Credit risk management policy”, “Policy for the management of liquidity risk”, “Policy for management of market risk in trading book”, “Policy for management of interest rate risk in banking book”, “Set of total internal quantitative limits for financial risk in BOŚ S.A.”;
 - “BOŚ S.A. Liquidity Strategy for 2019-2021”, and “BOŚ S.A. long-term plan for acquiring and maintaining external stable funds for 2019-2021”,
 - “Information Policy – Rules for disclosure of information by Bank Ochrony Środowiska S.A. to the extent defined by section eight of Regulation (EU) no. 575/2013 of the European Banking Authority of 26 June 2013 “Information disclosure by institutions”,
 - “Bank Ochrony Środowiska S.A. policy for capital and ICAAP process management”;
 - “Policy for management of non-performing exposures in BOŚ S.A.”,
 - “Policy for management of operational risk in BOŚ S.A.”,
 - “Policy for management of model risk in BOŚ S.A.”,
 - “Policy for BCP System Management in BOŚ S.A.” and “BOŚ S.A. Survival Strategy”,
 - “BOŚ S.A. investment strategy”,
 - “BOŚ S.A. Compliance Policy”
 - Bank’s 2020 Financial Plan,
 - Annual and long-term plan of internal audits and “Internal Audit Card – Rules for the functioning of BOŚ S.A. internal audit unit” and rules and annual activity plan of the Compliance Office,
- 5)** consideration and adoption of resolutions on matters remaining within the sole competence of the Supervisory Board, in particular:
- appointment, upon completing the recruitment process, of Management Board Vice President;
 - setting management objectives, objectives of supervised areas and individual targets for Management Board members for 2019;
 - determination of the consolidated text of Bank’s Articles of Association;
 - adoption of the policy and procedures for the selection of the audit company and policies for the audit company’s provision of additional services in BOŚ S.A.;
 - selection of the chartered accountant for examining and reviewing the financial statements of BOŚ S.A. and of BOŚ S.A. Capital Group for 2019-2021.

4. Activity and composition of Supervisory Board Committees

4.1. Internal Audit Committee

The Committee operated on the basis of the Rules of Procedure “Organisation and Tasks of the Internal Audit Committee” adopted by the Supervisory Board and on the basis of the Annual Activity Plan of the Internal Audit Committee. The 2019 Working Plan of the Internal Audit Committee was accomplished.

In 2019 the composition of the Internal Audit Committee was as follows:

- 1) during the period from 1 Jan. 2019 through 18 June 2019:
 - Wojciech Wardacki – Committee Chair,
 - Iwona Duda – Committee Vice Chair,
 - Emil Ślązak – Committee Member,
 - Marian Szołucha – Committee Member.
- 2) during the period from 2 July 2019² through 31 Dec. 2019:
 - Wojciech Wardacki – Committee Chair,
 - Emil Ślązak – Committee Vice Chair,
 - Iwona Duda – Committee Member,
 - Katarzyna Lewandowska – Committee Member,
 - Ireneusz Purgacz – Committee Member.

In 2019 the Internal Audit Committee meetings were held when needed, mainly in relation to the execution of the Committee’s Activity Plan and fulfilment of Bank’s current needs. In 2019 there were 10 Internal Audit Committee meetings, which was documented in meeting minutes.

Two meetings (held on 20 May and 12 July 2019) were organized by circulation, which is provided for in Par. 6 of the Rules of Procedure “Organisation and Tasks of the Internal Audit Committee”.

All the Internal Audit Committee meetings, except for those organised by circulation, were each time attended by: Bank Management Board President, Internal Audit Director and Compliance Office Director or their substitutes and also – when considering issues involving accounting and financial reporting – the Accounting Department Director (Committee meetings on 22 Jan. 2019, 26 Feb. 2019, 11 March 2019, 15 May 2019, 8 Aug. 2019 and 11 Dec. 2019) and representatives of the external Auditor - Mazars Audyty sp. z o.o. company (Committee meetings on: 21 Jan. 2019, 26 Feb. 2019, 11 March 2019 and 8 Aug. 2019).

² On 18 June 2019 the Supervisory Board’s 11th term started, while the composition of the Internal Audit Committee was decided upon on 2 July 2019.

In 2019 the Internal Audit Committee issued opinions, requests, recommendations, and guidelines to improve security and limit the risk in Bank's operations.

The undertaking of actions arising from the Internal Audit Committee's issued recommendations was within the competence of the Bank Management Board and the Internal Audit Department Director.

The Internal Audit Committee's recommendations issued in 2019 have been realised.

In 2019, on an ongoing basis the Committee performed tasks arising from legal regulations and recommendations of the Financial Supervision Authority setting the tasks and competence scope of that Committee. In particular, as part of supervision of financial reporting and revision, the Committee

- regularly cooperated with the external audit entity which examined Bank's financial statements, and also – as a result of good cooperation, made recommendations to the Supervisory Board to extend the contract with Bank's current auditor for another three years;
- considered and made recommendations to the Supervisory Board to adopt the policy and procedures for the selection of the audit company and policies for the audit company's provision of additional services in BOŚ S.A.;
- considered and made recommendations to the Supervisory Board to adopt the financial statements of the Bank and of the Capital Group for 2018 and Management Board's reports on the activity of the Bank and of the Group for 2018,
- considered and made recommendations to the Supervisory Board to adopt the contents of statements arising from the Finance Minister's Regulation of 29 March 2018 on current and periodic information presented by issuers of securities and on the terms of acceptance as equivalent of information required by the laws of a non-member state, i.e.:
 - 1) Supervisory Board's statement drawn in accordance with par. 70 section 1 (7) and Par. 71 Section 1 (7) of the abovementioned Regulation (regarding the selection of the audit company),
 - 2) Supervisory Board's statement drawn in accordance with par. 70 section 1 (8) and Par. 71 Section 1 (8) of the abovementioned Regulation (regarding the Internal Audit Committee),
 - 3) Supervisory Board's statement drawn in accordance with par. 70 section 1 (14) and Par. 71 Section 1 (12) of the abovementioned Regulation (regarding the evaluation of the Bank's reports).

Additionally, the results of the activities of the Internal Audit Committee included:

- approval of the updated Risk Map of Bank Ochrony Środowiska S.A.;
- consideration and adoption of:
 - "Annual information on the risk involved in the functioning of rules and organisation of accounting in the Bank" and "Information on amended accounting rules introduced in 2019 and amendments planned for subsequent years";

- recurring information on the results of the review of Bank's Management Information System;
- information on the remuneration of the Bank's internal control system employees, i.e. employees of risk, internal audit, compliance units and those holding positions which are critical to BOŚ S.A. financial reporting compared to Bank's average salaries;
- "Activity Plan of the Internal Audit Committee for 2020";
- consideration and issuing of recommendations to the Supervisory Board, regarding, among other things; adoption of the following documents:
 - Internal audit unit's information package: 1) Information on the accomplishment of "Internal Audit Department's Strategy for 2016-2020 compliant with the Framework Development Strategy of BOŚ S.A.; 2) Information on the results of self-evaluation of the Internal Audit Department for 2018; 3) Information on the completion status of the Program of assuring and improving the quality of operations of the Internal Audit Department for 2019-2021;
 - updated "Annual plan of internal audits for 2019 and Long-term plan for 2019 – 2021", and the "Annual plan of internal audits for 2020 and the Long-term plan of audits for 2020-2022";
 - Rules of procedure of compliance unit's functioning in BOŚ S.A. The activity plan of the Bank Ochrony Środowiska S.A. for 2019 and also the Compliance unit's report on the completion status of this unit's tasks;
 - Compliance policy in Bank Ochrony Środowiska SA,
 - "Internal audit card – Rules (of procedure) for the functioning of the internal audit unit in Bank Ochrony Środowiska S.A.";
 - regular (quarterly) information on the results of internal audits and internal controls conducted in the Bank, as well as quarterly reports on the verification of performance of tasks issues after such audits and controls conducted in the Bank;
 - regular (quarterly) information on the compliance risk in Bank Ochrony Środowiska S.A. and on compliance controls conducted by the compliance unit;
 - annual information on ensuring compliance of Bank's activities with regulations on the performance of activities specified in art. 70 section 2 of the financial instruments trading act;
 - regular reports on implementation of KNF recommendations arising from controls and inspections conducted in the Bank, including also those issued as a result of the BION (supervisor's inspection and assessment) assessment process;
 - Information Policy – Rules for disclosure of information by Bank Ochrony Środowiska S.A. to the extent defined by section eight of Regulation (EU) no. 575/2013 of the European Banking Authority of 27 June 2016 "Information disclosure by institutions and Information on Bank Ochrony Środowiska S.A. Capital Group disclosed in accordance with section eight of Regulation (EU) no. 575/2013 of the European Banking Authority of 27

June 2016 “Information disclosure by institutions”, as at 31 December 2018;

- preparing for the Supervisory Board – based on materials and information provided by the Bank Management Board and by the Internal Audit Department and the Compliance Office – recommendations on the assessment of BOŚ S.A. internal control system in 2019. On a scale of 1 to 4 (with 1 as the best grade) the effectiveness of the internal control system, like a year before, was graded 2: “Adequate and effective with irregularities”. The Supervisory Board approved the presented assessment – in accordance with the Committee’s recommendation. Justification of the assessment has been included in Appendix 1 hereto.

4.2. Remuneration and Nomination Committee

In 2019 the Remuneration and Nomination Committee consisted of three persons.

The Committee was made up of the following persons:

- during the period from 1 Jan. 2019 through 18 June 2019:
 - 1) Piotr Sadownik – Committee Chairman
 - 2) Dariusz Wasilewski – Committee Vice Chairman,
 - 3) Janina Goss – Committee Member
- during the period from 2 July 2019³ through 31 December 2019:
 - 1) Piotr Sadownik – Committee Chairman,
 - 2) Ireneusz Purgacz – Committee Vice Chairman,
 - 3) Janina Goss – Committee Member.

The Committee meetings were held when needed, mainly in relation to the execution of the Committee’s Activity Plan and fulfilment of Bank’s current needs. In 2019 there were 10 Committee meetings (including 2 meetings by circulation), which was documented in meeting minutes.

The topics of the Committee meetings focused primarily on issues related to:

- evaluation of qualifications of the Supervisory Board Members and of the Management Board Members performed on the basis of art. 22aa. of the Banking Act and Guidelines of the European Banking Authority;
- variable salaries of people holding key positions in the Bank, as defined in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal capital in banks.

The Committee issued opinions, motions and recommendations regarding the remuneration policy. Initiation of actions arising from the issued opinions, motions and recommendations fell into the competence of the Supervisory Board and Management

³ On 18 June 2019 the Supervisory Board’s 11th term started, while the composition of the Internal Audit Committee was decided upon on 2 July 2019

Board, respectively. All opinions, motions and recommendations in 2019 were taken into account and implemented in their entirety.

The results of the Committee's activities were, in particular:

- preparation of recommendations to the Supervisory Board, with regard to the rules, course and due dates for the recruitment process for the position of Bank Ochrony Środowiska Management Board Vice President;
- running the 1st stage of the recruitment process for the position of Bank Ochrony Środowiska Management Board Vice President, including assessment of suitability of candidates for this position and collective assessment of suitability of Bank Management Board;
- determination of terms and conditions for the provision of management services and recommendation to the Supervisory Board of the amount of fixed remuneration for a newly appointed Bank Management Board Member;
- preparation for the General Meeting of the draft of assessment of suitability of candidates for the Supervisory Board Members and collective assessment of the Supervisory Board of the 11th term;
- consideration and issuing recommendations for the Supervisory Board regarding, among others:
 - evaluation of management objectives, objectives of the supervised area and individual targets set for 2018 and determination of amount, granting and payment of variable remuneration for 2018;
 - management objectives, objectives of the supervised area and individual targets set for individual Management Board members for 2019.
- issuing of opinions on:
 - planned changes to the List of persons holding managerial positions in BOŚ S.A. (i.e. having a major impact on Bank's risk profile) and a proposal not to grant these people the variable remuneration for 2018;
 - results of an analysis of significance of impact of individual subsidiaries on Bank's risk profile, as at 30 June 2019 according to the Policy of remuneration of persons holding managerial positions in BOŚ S.A. Capital Group;
- preparation for the Supervisory Board – according to the “Corporate Governance Rules for Supervised Institutions” issued by the Financial Supervision Committee – “Assessment of the functioning of remuneration policy in BOŚ S.A. in 2019” along with a draft of assessment of the deciding authority regarding determination whether the Remuneration Policy of BOŚ S.A. favours the development and safe operations of the Bank. Information on the accomplished assessment has been included in Appendix 2 hereto.

4.3. Ecology Committee

The primary tasks of the Ecology Committee arise from the Rules of Procedure adopted by the Supervisory Board and include:

- issuing opinions and preparation of recommendations to the Supervisory Board regarding quarterly information on Bank’s pro-ecology activities and corresponding initiatives as well as directions of financing pro-ecology projects developed by the Bank;
- supporting Bank’s cooperation with the National and Voivodship Funds for Environment Protection and Water Management and other environmental organisations,
- preparation of recommendations and opinions to the Supervisory Board and Management Board regarding the development of banking ecological product offer.

In 2019 the Committee was made up of the following persons:

- during the period from 1 Jan. 2019 through 18 June 2019:

- 1) Andrzej Matysiak – Committee Chairman
- 2) Dariusz Wasilewski – Committee Vice Chairman
- 3) Janina Goss – Committee Member.

- during the period from 2 July 2019⁴ through 31 Dec. 2019;

- 1) Andrzej Matysiak – Committee Chairman
- 2) Paweł Sałek – Committee Vice Chairman
- 3) Janina Goss – Committee Member
- 4) Radosław Rasała – Committee Member

The Committee meetings were held when needed, mainly in relation to the execution of the Committee’s Activity Plan and fulfilment of Bank’s current needs. In 2019 there were 4 Committee meetings, which was documented in meeting minutes.

Except for the Committee members, the Committee meetings were attended by representatives of the Management Board and of Bank Head Office executive management, including Bank’s Chief Ecologist, in particular.

In 2019 the topics of the Committee meetings revolved mainly around quarterly reports on Bank’s pro-ecology activity, with particular regard to cooperation with the National and Voivodship Funds for Environment Protection and Water Management. The Ecology Committee issued relevant recommendations to the Supervisory Board (positive).

Additionally, major issues related to the development of Bank’s pro-ecology activity discussed during the Committee Meetings included:

- materials and information regarding Bank’s actions and initiatives contributing to intensification of cooperation with the National and Voivodship Funds for Environment Protection and Water Management, particularly with regard to: a) supporting tasks within the government’s program “Clean Air (Czyste Powietrze), b) Bank’s participation in the newly created, international program for the financing of energy-effectiveness within projects conducted in the ESCO formula (Energy

⁴ On 18 June 2019 the Supervisory Board’s 11th term started, while the composition of the Internal Audit Committee was decided upon on 2 July 2019

Saving Company), c) arrangement and execution of joint, coherent, complementary strategy of actions for the effective use of Bank in the transfers of funds financing pro-ecology undertakings;

- proposal of Bank’s offer supplementing the NFOŚiGW Program „Agro Energia”, involving the financing of projects of below 100,000 PLN (not eligible for the Program);
- amendment to the Act on renewable energy sources allowing entrepreneurs to deploy RES microsystems as business prosumers;
- financial needs of the heating energy sector, including municipal companies related to essential modernization investments, arising from the MCP directive (setting the limits of emissions of certain pollutants into the air) and constraints arising, inter alia, from public aid rules;
- essential investments arising from the IED directive regarding the limiting of emissions of sulphur dioxide, nitrogen oxides and dusts from large combustion plants,
- possibility of co-financing tasks conducted by the beneficiaries of programs “My Current” (Mój prąd) and “Clean Air” (Czyste powietrze) and benefiting from thermal insulation relief, i.e. individuals using pro-ecology solutions in their residences.

4.4. Risk Committee

The Risk Committee supports the Supervisory Board in the supervision of the risk area, performing tasks specified in the Banking Act, Bank’s Articles of Association and Supervisory Board’s Resolutions.

In 2019, the Committee was made up of the following persons:

a) from 1 Jan. 2019 through 18 June 2019:

- Emil Ślązak – Committee Chairman
- Marian Szolucha – Committee Vice Chairman
- Iwona Duda – Committee Member
- Wojciech Wardacki – Committee Member

b) from 2 July 2019⁵ through 31 Dec. 2019:

- Emil Ślązak – Committee Chairman
- Iwona Duda – Committee Vice Chair
- Katarzyna Lewandowska – Committee Member
- Radosław Rasała – Committee Member
- Wojciech Wardacki – Committee Member

In 2019 the Risk Committee meetings were held when needed, mainly in relation to the execution of the Committee’s Activity Plan and fulfilment of Bank’s needs.

In 2019 the Risk Committee held 8 meetings, which was documented in meeting minutes.

⁵ On 18 June 2019 the Supervisory Board’s 11th term started, while the composition of the Internal Audit Committee was decided upon on 2 July 2019

The Committee meetings were attended by Bank Management Board President and/or Vice President supervising the Risk Area, as well as representatives of the Bank Head Office executive bodies, mainly from the Risk Area and Bank's Business Area, and also the Internal Audit Department Director and Compliance Office Director (or employees from these units appointed by their respective Directors).

Additionally, the Committee Members adopted a principle that the Committee meetings may be attended by Supervisory Board Members who are not Committee Members.

The main tasks of the Risk Committee include supporting the Supervisory Board in the supervision of the risk area. When performing its tasks, the Committee, in particular:

- 1) issues comprehensive opinions on Bank's current and future readiness for undertaking risk, including the Committee:
 - a) acknowledges periodic reports/ information of the Bank Management Board on major events affecting the risk level in the Bank and on major changes to the risk management process and system,
 - b) acknowledges periodic statements/ reports/ information of the Bank Management Board on the risk level, increased exposure position to a given risk, on manners of identifying and monitoring of risk and on undertaken actions to mitigate risks;
- 2) issues opinions on the Bank Management Board's strategy of managing risk in the Bank's operations and information on the implementation of this strategy presented by the Bank Management Board, as well as supports the Supervisory Board in supervising the implementation of this strategy in the Bank;
- 3) verifies whether the prices of liabilities and assets offered to customers fully take into account the Bank's business model and its risk strategy and when these prices do not properly reflect the risk types vis-à-vis this model and this strategy, it presents the Bank Management Board proposals which are to ensure the prices of liabilities and assets are adequate to the types of these risks.

The main results of the Committee's works included:

- 1) consideration and issuing recommendations to the Supervisory Board regarding materials and documents related to Bank's risk management. These recommendations applied, in particular, to:
 - "Banking Risk" quarterly reports,
 - regulations on managing individual types of risks, including, in particular:
 - BOŚ S.A. Banking Risk Management Strategy,
 - BOŚ S.A. Credit risk management policy,
 - BOŚ S.A. concentration risk management policy,
 - BOŚ S.A. liquidity risk management policy,
 - BOŚ S.A. policy for managing market risk in the trading book,
 - BOŚ S.A. policy for managing interest rate risk in the banking book,
 - the set of total internal quantitative limits for financial risk in BOŚ S.A.,
 - Long-term plan for obtaining and maintaining external stable funds of BOŚ S.A. for 2019-2021,
 - BOŚ S.A. liquidity strategy for 2019-2021,

- BOŚ S.A. operating risk management policy,
 - BOŚ S.A. models risk management policy;
 - Policy for management of non-performing exposures (NPE) in BOŚ S.A. and the Operational plan for management of non-performing restructured exposures in BOŚ S.A., along with self-evaluation for the purpose of preparing the policy for non-performing and restructured exposures in BOŚ S.A. as at 31 Dec. 2018;
- 2) consideration and issuing recommendations to the Supervisory Board regarding capital adequacy issues and internal capital issues, particularly to:
- Report on the review of ICAAP ((Internal Capital Adequacy Assessment Process) review in BOŚ S.A. Capital Group for 2018,
 - BOŚ S.A. policy for capital and ICAAP management;
 - Capital plan for 2019-2021;
- 3) consideration and issuing recommendations to the Supervisory Board regarding the results of the ILAAP (internal liquidity adequacy assessment process) review;
- 4) consideration of information on:
- actions undertaken with regard to the clients from the wind farm portfolio,
 - major loan exposures affecting results due to depreciation,
 - selected credit exposures in relation to which in 2019 the Bank conducted restructuring or debt collection activities;
- 5) preparation, for the Supervisory Board – based on materials and information provided by the Bank Management Board – recommendations regarding BOŚ S.A. risk management system assessment in 2019. On the scale of 1 to 4 (1 being the best score) the system was evaluated at 2: “Adequate and effective with reservations (grade was 1 point higher than 2018 evaluation). The Supervisory Board approved that evaluation. The justification of the evaluation has been included in Appendix 1 hereto.

5. Self-Evaluation of Work of Bank Ochrony Środowiska Supervisory Board in 2019

In accordance with “Good Practices of Companies Listed on WSE” the Supervisory Board presented an evaluation of its works in 2019 to the General Meeting.

In 2019 the Supervisory Board held 13 meetings and carried out 2 voting sessions outside the meetings, resulting in the Board’s adoption of the requested resolutions.

The number of the Supervisory Board meetings significantly exceeded the obligations arising both from Par. 19 subpara. 2 of the Bank’s Articles of Association (“*Supervisory Board meetings shall be convened by its chairman as necessary but no less frequently than once in a quarter*”), and art. 389 Par. 3 of the Commercial Companies Code (“*Supervisory Board meetings shall be convened as necessary but no less frequently than three times in a financial year*”).

The Supervisory Board’s activities involved in 2019 issues specified in the Board’s Framework Activity Plan and also issues arising from Bank’s current activities.

Activities which the Supervisory Board was obligated to perform were conducted in a timely manner and with due diligence. Decisions were undertaken upon detailed consideration and listening to the Management Board's argumentation.

Persons appointed to the Supervisory Board – in order to ensure versatility and diversity of this body – represented/ represent different directions of education and skills, high qualifications and rich professional experience.

Each of the Supervisory Board Members was continuously interested in the Bank's situation, which resulted not only from the functions held but also from education, experience and interest. Some of the major observations and opinions were reflected in the Board meeting minutes.

All the Management Board Members fulfilled their duties on their respective functions actively, demonstrating the necessary commitment to the work in the Supervisory Board. The Supervisory Board Members devoted the necessary amount of time to executing their duties, arising from their membership in a supervision body, including the Supervision Board Committees (each Supervisory Board Members held/holds a function in at least one Committee).

It was a regular principle for all the Supervisory Board Members to attend all the Board meetings. Rare cases of absence were always justified.

Activeness and commitment of individual Board Members allowed due execution of the tasks of the Supervisory Board as a collective supervision body.

Given the duties arising from the law and articles of association, the Supervisory Board duly executed its duties arising from permanent supervision of the Bank. This was particularly visible in the matters involving:

- implementation of assumptions of the Recovery Proceedings Program and current financial situation of the Bank. This issue, being critical to the Bank, was discussed at each meeting. The Board considered periodic (monthly) reports on Bank's generated financial results – both vis-à-vis the Financial Plan (Recovery Proceedings Plan) and vis-à-vis other banks of this sector, paying particular attention to the necessity to undertake more active and effective actions to increase Bank's revenue, particularly the increase of balances and the scale of loan activities;
- Bank's involvement in financing wind farms (Bank's involvement in this sector resulted in an increase of the concentration risk and consequently, a necessity to book additional write-offs and in a decrease of the Bank's financial results at the end of 2016). The Bank Management Board – as expected by the Supervisory Board – regularly presented, at the Supervisory Board Meetings, reports on the condition of the wind farm portfolio and situations of individual farms and risk management report in this context. The undertaken actions resulted, among other things, in an improved structure of the wind farm portfolio, decrease of the balance of these loans and decreasing share of the wind farm portfolio in the total loan portfolio;

- the quality of managing individual types of banking risk. Detailed reports on this issue were regularly (on a quarterly basis) considered both by the Supervisory Board and by the Risk Committee;
- results of controls and internal audits as well as external audits. Reports on this issue were regularly considered both by the Supervisory Board and by the Internal Audit Committee;
- Bank’s pro-ecology activities, including the financing of environmental projects, particularly in cooperation with the National and Voivodship Funds for Environment Protection and Water Management – as part of executing the statutory mission of BOŚ S.A. Detailed reports on this issue were regularly considered by the Supervisory Board and by the Ecology Committee

Additionally, according to the requirements set forth in the Commercial Companies’ Code and “Corporate Governance Rules for supervised institutions” issued by the Financial Supervision Authority, Good Practices of Companies listed on the WSE and the Act on the Rules for Managing State Property – the Supervisory Board:

- evaluated the Bank’s situation in 2019 taking into account the evaluation of internal control systems, risk management system, compliance system and internal audit functions (Appendix 1 hereto);
- evaluated the functioning of the Remuneration Policy in 2019, including a draft of assessment of the resolving body whether the Policy of Remuneration in BOŚ S.A. favours the development and safety of Bank’s operations (Appendix 2 hereto);
- evaluated the rationale of the Bank’s policy of sponsoring, charitable or similar activity or information (Appendix 3 hereto);
- evaluated the Bank’s application of “Corporate Governance Rules for Supervised Institutions”, issued by the Financial Supervision Authority on 22 July 2014 and evaluation of the manner of the Bank Ochrony Środowiska S.A.’s fulfilment of informational obligations regarding application of corporate governance rules, specified in the Rules of the Warsaw Stock Exchange and regulations on current and periodic information in 2019 provided by issuers of securities” (Appendix 4 hereto);
- evaluated the Management Board’s reports on the activity of the Bank and of Bank Ochrony Środowiska S.A. Capital Group for 2019 vis-à-vis their compliance with ledgers, documents and books. The Supervisory Board issued a relevant statement which was publicised on 17 March 2020, along the Annual Report of the Bank and of the Capital Group for the year 2019;
- considered and issued opinions on the “Report on expenditures on representation, legal services, marketing services, public relations services, social communication and management consulting services for 2019” presented by the Bank Management Board to the Ordinary General Meeting.

6. Information on Supervisory Board Members' fulfilment of the criterion of independence in 2019

In 2019 BOŚ SA Supervisory Board consisted of:

- 1) Iwona Duda
- 2) Janina Goss
- 3) Katarzyna Lewandowska (from 18 June 2019)
- 4) Andrzej Matysiak
- 5) Ireneusz Purgacz (from 18 June 2019)
- 6) Radosław Rasała (from 18 June 2019)
- 7) Piotr Sadownik
- 8) Paweł Sałek (from 18 June 2019)
- 9) Marian Szołucha (from 18 June 2019)
- 10) Emil Ślązak
- 11) Dariusz Wasilewski (from 18 June 2019)
- 12) Wojciech Wardacki

In accordance with:

- “Good Practices of Companies Listed on WSE” adopted for execution in the Bank, (*according to which the “the Supervisory Board evaluates whether there are relations or circumstances which may affect the fulfilment by individual Supervisory Board Members of the independence criteria”*),
- European Commission recommendation on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, (*according to which the Supervisory Board should identify independence of its Members*),
- Rules of Procedure of BOŚ S.A. Supervisory Board,

the Supervisory Board evaluated whether there are relations or circumstances which may affect the fulfilment by individual Supervisory Board Members of specific independence criteria.

Following the declarations submitted by the Supervisory Board Members, as well as the evaluation performed by the Supervisory Board, the Supervisory Board determined the status of independence of its members, by concluding that in 2019:

- 1) the criteria of independence were fulfilled by:
 - Mr Wojciech Wardacki
 - Ms Katarzyna Lewandowska
 - Ms Janina Goss
 - Ms Iwona Duda
 - Mr Ireneusz Purgacz
 - Mr Radosław Rasała
 - Mr Piotr Sadownik

- Mr Paweł Sałek
 - Mr Marian Szolucha
 - Mr Emil Ślęzak
 - Mr Dariusz Wasilewski
- 2) independence criteria were not fulfilled by Mr Andrzej Matysiak due to his relation with a shareholder holding at least 5 per cent of the total number of votes in BOŚ S.A. shares.

The criteria of independence set forth in the Act on chartered accountants, auditing firms and public supervision of 11 May 2017 were fulfilled by all the Members of the Supervisory Board who made up the Internal Audit Committee.

7. Information on Supervisory Board Members' fulfilment of requirements set forth in art. 129 sections 1 and 5 of the Act on chartered accountants, auditing firms and public supervision of 11 May 2017 (Journal of Laws of 2019 item 1421 with further amendments)

The Act on chartered accountants, auditing firms and public supervision of 11 May 2017 introduced special requirements for the Supervisory Board Members who are members of the Internal Audit Committee.

- 1) the provisions of art. 129 section 1 of the act require that at least one member of the Internal Audit Committee have knowledge and skills in the area of accounting or auditing of financial statements.
On the basis of declarations submitted by the Internal Audit Committee members, the Supervisory Board acknowledged that this requirement was fulfilled in the Bank.
- 2) the provisions of art. 129 section 5 of the Act require that the Internal Audit Committee members have knowledge and skills in the area of banking, while this condition is deemed fulfilled if at least one Internal Audit Committee Member has knowledge and skills in the area of banking or if individual members in individual scopes have knowledge and skills in the area of banking.
On the basis of declarations submitted by the Internal Audit Committee members, the Supervisory Board acknowledged that this requirement was fulfilled in the Bank

8. Supervisory Board Report on the conducted evaluation of:

- **statements of the Bank and of BOŚ S.A. Capital Group for 2019 vis-à-vis their compliance with ledgers, documents and actual state of matters;**
- **Management Board's motion for distribution of Bank's 2019 profit.**

The Supervisory Board of Bank Ochrony Środowiska S.A., under art. 382 Par. 3 of the Commercial Companies Code and Par. 43 subpara. 1 and 2 of the Articles of Association of Bank Ochrony Środowiska S.A. evaluated the below-listed statements with regard to their compliance with ledgers, documents and actual state of matters of:

- 1) consolidated financial statement of Bank Ochrony Środowiska S.A. Capital Group for the year ended 31 Dec. 2019 (consolidated financial statement),

- 2) financial statement of Bank Ochrony Środowiska S.A. for the year ended 31 December 2019 (separate financial statement),
- 3) Management Board's report on activity of Bank Ochrony Środowiska S.A. Capital Group for 2019 along with the Management Board's Report on activity of Bank Ochrony Środowiska S.A.,

The Supervisory Board evaluated these statements and reports vis-à-vis ledgers, documents and actual state of matters. The Supervisory Board issued their evaluation based on:

- the wording of and data contained in the abovementioned statements and reports submitted and discussed by the Bank Management Board,
- reports on the review of the separate and consolidated financial statements (financial statements) and additional report of the auditing company drawn for the Internal Audit Committee,
- meetings with representatives of the auditing company, including its key chartered accountant,
- positive recommendations of the Internal Audit Committee.

The correctness of the consolidated financial statement of Bank Ochrony Środowiska S.A. capital group and of the separate financial statement of Bank Ochrony Środowiska S.A. for the year ended 31 December 2019 was also acknowledged by the opinion issued by an authorised, independent chartered accountant, who issued a relevant opinion thereon containing no reservations.

The Supervisory Board's statement on the performed evaluation was publicised in an annual report on 17 March 2020, in accordance with Par. 70 section 1 Item 14 and Par. 71 section 1 item 12 of the Finance Minister's Regulation of 29 March 2018 on current and periodic information presented by issuers of securities and on the terms of acceptance as equivalent of information required by the laws of a non-member state and Par. 20 subpara. 11 point 9 of the Articles of Association of Bank Ochrony Środowiska S.A.

Additionally, the Supervisory Board – upon consideration at its meeting on 13 May 2020 – issued a positive opinion on the Management Board's motion for the distribution of Bank's 2019 profit according to which the net profit earned in 2019 in the amount of eighty million six hundred and sixty-one thousand seven hundred and seventy-five zlotys and 23 grosz (80,661,757.23 PLN) is to be allocated in its entirety to reserve capital.

Bank Supervisory Board issued a positive opinion on the General Meeting's resolution on this matter and recommended the General Meeting to adopt this resolution.

Having submitted this report, the Supervisory Board hereby requests the General Meeting to approve it.

On behalf of Supervisory Board of Bank Ochrony Środowiska S.A.
Chairman of Supervisory Board

/-/ Wojciech Wardacki, PhD. Eng.

Warsaw, 13 May 2020

Evaluation of Bank's situation in 2019, taking into account evaluations of internal control system, risk management system, compliance system and internal audit function.

The basis for the Supervisory Board's evaluation within this scope is constituted by the corporate governance rules included in "Good Practices of Companies Listed on WSE 2016".

1. Concise evaluation of Bank's situation in 2019.

The Supervisory Board evaluated the Bank's situation in 2019 on the basis of:

- current reports on the economic and financial situation of the Bank considered during the year at Supervisory Board Meetings,
- reports of the compliance unit and reports of the internal audit unit on the results of conducted audits and controls,
- an analysis of the Management Board's report on the Bank's activity in 2019,
- an analysis of 2019 BOŚ S.A. financial statement,
- an independent chartered accountant's report on the audit of the Bank's financial statement for the financial year 2019 and the auditor's information on the course and results of this audit.

When evaluating the Bank's situation in 2019 the Supervisory Board particularly draws attention to and positively evaluates the following facts:

- 1) due to consistently conducted remedial activities, in 2019 BOŚ S.A. generated net profit of nearly 80.7m PLN – versus 65m PLN the year before and versus 24.4m PLN profit in 2017 and versus a loss of 68m PLN in 2016. That was Bank's best financial result since 2000 and it significantly exceeds both the assumptions of the Financial Plan and the Recovery Proceedings Program. What is more, one must point to the fact that the Bank's financial result – upon exclusion of the reserves set aside for the so-called small and big CJEU (27m PLN in total) – would have been close to 108m PLN (which is 66 per cent higher than the year before). Another Bank's success is also the result generated on interest, which amounted to ca. 413m PLN, which is 10.0 per cent higher than in 2018. The result was significantly impacted by the decrease of interest expenses, which dropped by over 36m PLN, or by 14.4 per cent versus 2018. The interest expenses decreased mainly as a result of lower costs of own bonds and lower interest rates;
- 2) as part of executing the Recovery Proceedings Program the Bank continued its restructuring activities – it operated on an altered business model. The applied

business model is characterised by a focus on corporate banking, particularly small and medium enterprises, and by a profile customised for individual clients;

- 3) thanks to the implementation of the new business model, arising from the Bank's Business Strategy being executed, and also thanks to effective reorganization of the business functioning mode, in 2019 the bank granted loans and credits (new sales) for an amount of nearly 4.6bn PLN, which is about 81 per cent more than the 2018 figure; sales to corporate clients increased by 84.0 per cent, and in the retail client segment – by 51.6 per cent. The change of the business model enabled the Bank to continue positive trends of effectiveness ratios – ROE increased from 3.4 per cent in 2018 to 3.8 per cent in 2019, ROA increased from 0.3 per cent in 2018 to 0.4 per cent in 2019, while cost/income ratio reached 57.2 per cent at the end of 2019 which is 0.7 p.p. lower than in 2018 (mainly as a result of higher income, despite 7.5m PLN or 23 per cent higher contribution to BFG). The interest margin on total assets amounted to 2.3 per cent versus 2.0 per cent for 2018, mainly as a result of improved asset structure and lower costs of BOŚ S.A. liabilities as well as higher income from loans. The Supervisory Board points to the fact that despite the record sales of loans, as mentioned above, the Bank's loan balance anticipated in the 2019 financial plan was not fully realised.
- 4) in 2019 the Bank continued its operations on the market of financing pro-ecology projects. The pro-ecology loan balance as at 31 Dec. 2019 totalled ca. 4.45bn PLN, including total exposures to windfarm financing of ca. 1.56bn PLN. The share of pro-ecology loans and sustainable development loans in the total loan portfolio constitutes 34.45 per cent of Bank's total loan portfolio (34.85 per cent as at 2018-end). The amount of new pro-ecology loans in 2019 totalled over 1.9bn PLN and was approx. 120 per cent higher than in the same period the year before. A vast majority of new pro-ecology loans targeted corporate customers.
- 5) the Bank further limited the risk arising from its significant commitment to the financing of wind farms. Major factors mitigating the risk include: gradually dropping balance of this portfolio and, as a consequence, gradually dropping share of this portfolio in the total loan portfolio; Bank's total commitment to financing wind farms slightly exceeded 1.5bn PLN as at 31 Dec. 2019, versus 1.8bn PLN at the end of 2018.
- 6) in 2019 the Bank reduced, in comparison to 2018, both material expenses (by nearly 13m PLN or ca. 14.6 per cent), and personnel costs (by 0.3m PLN or 0.3 per cent). Lower personnel costs resulted mainly from employment base optimisation – as at the end of December 2019 the Bank had ca. 12 per cent fewer employees than at the end of 2018. At the same time, however, Banks' overheads increased by over 9m PLN (or 3.5 per cent versus 2018), mainly as a result of the higher BFG contribution. The annual contribution to the forced banks' restructuring fund for 2019 totalled 29.3m PLN in 2019, while in 2018 this contribution totalled 14.4m PLN. Total BFG contributions booked against 2019 expenses amounted to 39.9m PLN versus 32.3m PLN in 2018;

- 7) Fitch Ratings Ltd confirmed Bank's Jan. 2019 grades and informed that the confirmed ratings reflect the lack of major changes to Bank's separate loan portfolio versus the previous Bank's review;
- 8) Bank's selected products, designed to address customer needs but also to contribute to the Polish economy were granted the "Turbina Polskiej Gospodarki" award in a competition of "Gazeta Finansowa". Honourable mentions were granted to Bank's two products – EKOfaktoring and Ekoooszczędny Loan. Additionally, in 2019 the Bank received a number of other honorary mentions and awards, among which one may find: honorary mention in the Small and Medium Commercial Bank category granted by Gazeta Bankowa, which once more selected chose the Polish finance leaders; Zielony Laur award of the Polish Economic Chamber "Ekorozwój" for effective for effective support of pro-ecology investment projects; "Ecological Company of the year" granted by Gazeta Finansowa (award granted for special commitment to promoting pro-ecological behaviours); medal "For contributions to sustainable development" granted to the Bank by the Polish Ecology Chamber's Council. Also, BOŚ S.A. Brokerage House was awarded several times in 2019, including WSE award in the "Derivatives Market Leader" for top activity on the forward market and Financial Brand of the Year for top-quality services and products offered on the investment market.
- 9) despite positive effects of the abovementioned operations, the Bank's balance sheet total at the end of 2019 was only slightly higher than at 2018-end and amounted to ca. 18.33bn PLN (1.4 per cent higher) and BOŚ S.A. share in the commercial banks sector at 2019-end was similar to the figures the year before and totalled:
 - 0.9 per cent for the balance sheet total versus 1.0 per cent at the end of 2018,
 - 1.2 per cent for the deposits of the non-financial sector versus 1.3 per cent at the end of 2018,
 - 0.9 per cent for loans and credits versus 0.9 per cent as at 2018-end.

When evaluating Bank's 2019 situation, the Supervisory Board stressed that its consistent execution of the Recovery Proceedings Program deserves a positive mention as it brought about positive, material effects in multiple areas of Bank's operations. The conducted restructuring, including the business model change, translated into a significant growth of the financial results and improved effectiveness ratios.

However, there are still areas within which the Bank has some reserves at its disposal. In particular, the Supervisory Board recommended the Management Board to:

- intensify sales activity to increase Bank's income and loan balance and consequently, further increase effectiveness of operations visible in ROE, ROA and C/I ratios, among others;
- further intensify Bank's market activity, including actions to increase the number of customers and further improve customer service quality, including, in particular, via modern electronic channels.

The Supervisory Board approves of those actions of the Bank – which according to its mission, in cooperation with other ecology financing entities in Poland – is planning to further strengthen its position on the pro-ecology project financing market and aims at increasing the goodwill of the Bank, as a major ecology financing entity in Poland. Additionally, in this context, the Supervisory Board points to the fact that it is purposeful to further intensify cooperation between the Bank and its strategic shareholder.

The supervisory Board also indicates that Bank's operations in 2020 and possibly in the subsequent years may be particularly affected by factors like:

- the risk of a significant weakening of PLN exchange rate to CHF and EUR, which would result in an increase of the volume of FX loans and consequently, the growth of the capital requirement for these loans. Long-term and significant depreciation of PLN versus foreign currencies, particularly CHF, would negatively contribute to the quality of the FX mortgage loan portfolio;
- the risk of growing volatility in the global financial market and lower ratings – both the country rating and Bank's company rating – which could result in higher costs of external financing as well as impairment of transactions involving foreign currency risk and interest rate risk management as well as more difficult access to foreign financing;
- the risk of interest rates staying at a low level or further lowering of interest rates both in PLN and foreign currencies, which could result in further reductions of Bank's net interest rate mark-up and the drop-down of the interest rate results.
- the consequences of the CJEU ruling in case no. C-260/18 of 3 October 2018 for the foreign currency loan portfolio. The Bank is continuously monitoring national verdicts in cases regarding foreign mortgage loans and when weighing the legal risk it concludes that the CJEU's verdict and the rulings of Polish courts in similar cases may in the future contribute to the growing number of lawsuits and the value of claims. As at 31 Dec. 2019 the Bank set aside a reserve for the current lawsuits in this respect in the amount of: 7.8m PLN and for future lawsuits as well as potential claims, in the amount of: 15.4m PLN. In total, reserves set aside for the legal risk of denominated loans and credits amounts to 23.2m PLN;
- the consequences of the CJEU ruling in case no. C – 383/18 of 11 Nov. 2019 regarding consumer's right to reduce the loan cost following an early repayment under a loan contract. The Bank estimates that this CJEU's ruling may, in the future quarters, result in an increase of consumer claims demanding payback of portions of costs for early repayments of loans and corresponding increase of the number of lawsuits. The scale of the impact of this risk onto the Bank's result depends on the number of applications filed by the Customers.

However, the most important challenges faced by both the Bank and the entire economy will be those related to fighting the coronavirus epidemic consequences. The Bank is continuously analysing the economic situation in Poland and other countries and will be undertaking relevant actions in subsequent reporting periods, depending on the scale of the epidemic and its impact on the economic environment. However,

now one should expect lower sales, higher risk costs, deterioration of loan portfolio quality and consequently, lower financial results.

2. Evaluations of internal control system, risk management system, compliance system and internal audit function.

The purpose of these systems is to ensure effective and efficient operations of the Bank and compliance with relevant legal regulations in all aspects of the Bank's operations.

The Supervisory Board supervised the functioning and effectiveness of these systems in the Bank with active participation of the Internal Audit Committee and the Risk Committee.

2.1 Evaluation of the internal control system in the Bank and in BOŚ S.A. Capital Group

The evaluation applies to the internal audit system, which – according to the Banking Act – consists in: the control function, the compliance unit and the internal audit unit.

As a result of the exerted supervision, taking into account the Internal Audit Committee's recommendation, the Supervisory Board evaluated the effectiveness and suitability of the internal audit system in BOŚ S.A. and in BOŚ S.A. Capital Group in 2019 at level 2: "Adequate and effective with shortcomings" (on the scale of 1 to 4, where 1 is the best grade). The evaluation of the internal control system for 2019 is the same as in 2018.

In 2019, both the Internal Audit Committee and the Supervisory Board performed its function based on:

- internal tools specified in the Management Information System, i.e. reports and information presented, in particular, by the internal audit unit and the compliance unit,
- external tools based mainly on KNF Supervision Audit and Assessment (BION), external auditor's reports and opinions issued following audits of financial statements of the Bank and of BOŚ S.A. Capital Group and other reports on control and supervision activities in the Bank.

Assessment of suitability and effectiveness of the internal audit system was formulated upon consideration and on the basis of the following elements:

- 1) the risk management system and the internal control system functioning in the Bank, organised at three independent levels (three lines of defence),
- 2) Bank's internal regulations on internal control system, updated and adjusted to comply with KNF's Recommendation H,
- 3) Bank's methodology of identifying and assessing control mechanisms in Bank's major processes,
- 4) conducted Risk Map review which revealed that out of 115 processes listed in the Risk Map, no processes with inadequate and ineffective controls were identified,
- 5) results of planned and unplanned audits conducted in the Bank where risk areas were identified. Following the identified ineffectiveness, recommendations were made and actions were undertaken in 2019 to mitigate the identified risk factors,
- 6) the results of horizontal and vertical tests of controls conducted by the Compliance Office and the results of compliance tests carried out in Bank outlets following which recommendations were presented to improve the functioning of controls within the internal control system,
- 7) regular evaluation of the level of compliance risk contained in information and reports of the Compliance Office regarding the compliance risk management in the Bank and in BOŚ S.A. Capital Group,
- 8) the results of monitoring, conducted each year, of the internal audit unit's operations, i.e. self-evaluation of the Internal Audit Department for 2019, the Program of assuring and improving the quality of operations of the Internal Audit Department and assessment of the implementation status of the Internal Audit Department's Strategy for 2016 – 2020;
- 9) the status of implementation of recommendations issued by:
 - Internal Audit Committee as part of the exerted supervision,
 - Internal Audit Department as part of conducted internal audits,
 - Supervision and control bodies after conducted internal controls,
- 10) external ratings of the Bank and the results of the KNF's BION assessment.

2.2. Evaluation of internal audit function

In the Supervisory Board's opinion, the internal audit function is executed effectively and efficiently and covers all Bank units and its subsidiaries.

This assessment was formulated on the basis of:

- independent, external assessment, issued in 2017, which confirmed compliance of the Bank's Internal Audit Department with supervisory requirements (KNF Recommendation H, Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal equity in banks) and IIA International Standards for the Professional Practice of Internal Auditing,
- annual results of the monitoring of the internal audit unit's activity, i.e.: self-evaluation of the Internal Audit Department for 2019 affecting the Program of assuring and improving the quality of operations of the Internal Audit Department and assessment of the implementation status of the Internal Audit Department's Strategy

for 2016 – 2020 compliant with the BOŚ S.A. Framework Development Strategy. The self-evaluation conducted in 2019 confirmed that the operations of the Internal Audit Department is fully compliant with the International Standards for the Professional Practice of Internal Auditing and KNF's Recommendation H and revealed no gaps which require adjustments.

Bank's internal auditors are properly qualified and are paid relevant salaries. In 2019 the Department's human resources were supplemented. As part of the professional training program, a recommendation was made to increase the number of professional auditor certificates of recognized international organisations.

In 2019 the Internal Audit Department employees did not perform any activities beyond those arising from their auditing or advisory activities (i.e. they did not perform purely operational activities). Additionally, the auditors, for the past 12 months, were not employed in those units in which they conducted their audit activities, which proves there is no conflict of interest here.

The internal audit area has relevant authorisations and an organisational structure that allow independent accomplishment of tasks. The established internal audit function provides full and free access to any and all information. Internal audit is an integral and independent component of Bank's internal control system, deployed on the third level (i.e. third line of defence) in the system. In terms of organisation, the Internal Audit Department reports to the Management Board President, while subject-matter supervision is exerted by the Audit Committee. The scope and methods of audit examinations, sample choice, issued opinions and risk assessments and evaluations of suitability and effectiveness of the risk management system and the internal control system are the consequence of autonomous decisions of the Internal Audit Department. The Department Director participates in Bank Management Board meetings, which gives the Director a view of actions of Bank's management bodies and allows him/her to present own opinions. The director is also continuously in touch with the Supervisory Board Chairman, who is also the Chairman of the Internal Audit Committee and participates in all the meetings of this Committee.

Annual planning of audits is based on the comprehensive risk assessment process and clearly defines the objectives and scope of audit works. According to the adopted methodology of the internal audit, the Annual Audit Plan for 2019 took into consideration both expectation of the Supervisory Board and the Management Board and the KNF requirements. The 2019 Audit Plan comprised all major issues, allowing independent and objective assessment of suitability and effectiveness of the risk management system and the internal audit system, including identification of irregularities and ineffective items in the audited processes and assessment of the risk level for individual processes/ issues.

The issued recommendations and post-audit guidelines were subject to monitoring, and the status of implementing them was regularly reported to relevant bodies – Bank Management Board, Internal Audit Committee and Supervisory Board.

2.3. Evaluation of compliance risk management system (compliance risk)

In the opinion of the Supervisory Board the compliance risk management system is effective and efficient and comprises all the Bank units and subsidiaries.

The Bank ensures compliance of operations with legal regulations, internal regulations and market standards through:

- 1) the control function (application of controls and monitoring of observance of those controls) and
- 2) the compliance risk management process, which comprises identification, assessment, control and monitoring of the compliance risk and relevant reporting to the Management Board and Supervisory Board.

The process of managing the compliance risk, construed as the risk of consequences of a failure to observe legal regulations, internal regulations and market standards, is carried out by the Compliance Office, which is a separate independent compliance unit, reporting directly to the Bank Management Board President, responsible for the fulfilment of its internal control tasks and performance of compliance risk tasks. The Compliance Office has relevant authorisations, including full and free access to any and all information, and an organisational structure allowing independent task performance. The Compliance Office Director regularly participates in Bank Management Board meetings, which gives the Director a view of actions of Bank's management bodies and allows him/her to present own opinions and also in the meetings of the Internal Audit Committee.

The basic principles of ensuring compliance in the Bank, as part of the control function and the compliance risk management process, have been set in the Compliance Policy of Bank Ochrony Środowiska S.A., prepared by the Management Board and approved by the Supervisory Board and in legislative acts referring to the Policy, including:

- 1) Compliance Risk Management Rules of Bank Ochrony Środowiska S.A.;
- 2) Internal Control Execution Rules of Bank Ochrony Środowiska S.A.

The purpose of Bank's compliance risk management is to:

- 1) identify, assess and control the possibility of occurrence of negative consequences of a failure to observe legal regulations, internal regulations and market standards, particularly occurrence of legal sanctions, financial losses or loss of reputation, which may result from a failure to observe legal regulations, internal regulations and market standards;
- 2) strengthening the image of the Bank as an institution acting legally, an honest, reliable, environment-friendly, credible and responsible business.

The Bank has distinguished the following key areas for ensuring compliance:

- 1) preventing the Bank from performing illegal activities, including anti-money laundering and counter-terrorism financing;
- 2) protection of information;
- 3) implementation and monitoring of observance of ethical standards;
- 4) receiving or giving benefits and gifts;

- 5) performance of advertising and marketing activities;
- 6) offering products;
- 7) customer complaints and claims;
- 8) management of conflict of interest.

The compliance risk in the Bank is systematically monitored. Information on compliance risk events (and operating risk events) in the Bank are identified, collected and analysed with the use of a dedicated application.

Information on compliance risk management in the Bank is regularly and timely presented to the Management Board, Internal Audit Committee and Supervisory Board.

The overall level of compliance risk in 2019 in the Bank was estimated on the basis of horizontal and vertical testing and was found to be moderate.

In 2019 there were no events which significantly affected the compliance risk level; the Bank focused its activities on counteracting compliance risk.

The Bank conducted a number of adjustments to new regulations and standards, in particular:

- adjustment to the Act of 5 July 2018 on the national cybersecurity system;
- adjustment to the requirements of the KNF Announcement of 23 Oct. 2017 regarding the supervised entities' use of cloud data processing (Cloud Project);
- adjustment to the Act of 9 Aug. 2019 on the amendment of the act on taxes on goods and services and selected other acts, introducing a list of tax-payers (White List);
- Bank's adjustment to the requirements arising from changes introduced by the Act of 5 July 2018 on amending the Tax Ordinance Act and selected other acts (Journal of Laws of 2018 item 1499) (Tax Schemes);
- Bank's adjustment to new requirements arising from KNF's Recommendation B on limitation of banks' investment risks (replacing Recommendation adopted in 2002);
- Bank's adjustment to EBA guidelines on outsourcing of 25 Feb. 2019 (final deadline reaching compliance was postponed till end of June 2020);
- Bank's adjustment to MIFID II / MIFIR package through preparation of internal regulations on acquisition or disposal of financial instruments on own account. The prepared drafts of regulations were submitted to the KNF as part of proceedings to issue permission for amending the Bank's Articles of Association. On 20 Dec. 2019 the KNF issued its permission regarding the requested investment operations;
- preparation of the Bank to introduce Employee Capital Plans;
- accounting for costs of consumer loans upon earlier repayments as required by the CJEU ruling of 11 Sep. 2019 (so-called "small CJEU ruling").

Additionally, in 2019 the Compliance Office conducted a review which resulted in updating Bank's following internal regulations:

- Banku Ochrony Środowiska S.A. Compliance Policy,
- Rules for protection of confidential information and occupational secret information flow in Bank Ochrony Środowiska S.A.,
- Rules for preventing and disclosing financial instrument manipulations in Bank Ochrony Środowiska S.A.,

- Rules for preventing and managing conflicts of interest in Bank Ochrony Środowiska S.A.,
- Rules for receiving and giving presents in Bank Ochrony Środowiska S.A.,
- Rules for conducting internal control in Bank Ochrony Środowiska S.A.

Another point that deserves a mention is the update of internal regulations on anti-money laundering and counter-terrorism financing.

In 2019 the Bank introduced amended “Rules for anti-money laundering and counter-terrorism financing in Bank Ochrony Środowiska S.A.”, and also “Procedure for anti-money laundering and counter-terrorism financing in Bank Ochrony Środowiska S.A.”. These regulations included the recommendations of the General Inspector of Financial Information (GIIF), issued upon the audit conducted in BOŚ S.A. between 25 and 29 March 2019 regarding anti-money laundering and counter-terrorism financing. The GIIF recommended the Bank to undertake actions to ensure documentation of any and all actions taken in relation to the fulfilment of statutory obligations and verify internal procedures to ensure Bank employees apply financial security measures to the full extent required by act. The recommendations have been implemented by, among other things, definitive definition in these regulations of issues regarding continuous monitoring of economic relations and documentation of any and all activities taken for this purpose during Bank’s operations.

These regulations, as it is necessary to implement KNF’s requirements presented during the administrative proceedings involving the issuing of permission for the amendment of the Bank’s Articles of Association regarding investment services, were once more amended in February 2020 (Draft of the amended Rules and Procedures were submitted to the KNF Office in November 2019 in order to confirm that they meet the supervisory authority’s expectations. The KNF, in its decision of 20 Dec. 2019, granted its consent to the Bank to amend its Articles of Association, which meant the changes of the abovementioned regulations drafted by the Bank were approved).

At the same time, as at 31 Dec. 2019 the Bank identified the following events as ones that pose potential compliance risk:

- 1) administrative proceedings to impose, onto BOŚ S.A., an administrative penalty following an alleged violation of obligations specified in the Act of 1 March 2018 on anti-money laundering and counter-terrorism financing – by the absence of identification and verification of beneficiary owners (following an audit conducted between 23 July 2018 and 3 Aug. 2018). Despite the fact the Authority has been presented additional explanations and documents and that the Bank undertook a number of actions (such as increasing the number of employees in the Bank’s unit managing the anti-money laundering and counter-terrorism financing, conducting intensive training for employees, purchase of new AML tools, update of internal procedures and instructions), on 2 Apr. 2020 the Bank received KNF decision of 27 March 2020 imposing a financial penalty onto the Bank. The decision is not final and binding and is subject to appeal;
- 2) The results of the KNF Office’s audit verifying BOŚ S.A.’s observance of selected obligations arising from the provisions of the act of 1 March 2018 on anti-money laundering and counter-terrorism financing, carried out in the Bank

between 14 Nov. 2019 and 24 Jan. 2020. On 11 March 2020 the Bank received the KNF's protocol drawn after this audit. Bank Management Board's reservations and additional explanations were included in the protocol.

- 3) the decision of the General Inspector of Financial Information made in relation to an audit conducted between 25 and 29 March 2019, to institute proceedings ex officio to impose an administrative penalty due to the failure to fulfil obligations stipulated in the act of 1 March 2018 on anti-money laundering and counter-terrorism financing. As of this report date, the proceedings of the General Inspector of Financial Information have not been closed and thus, no results thereof are known.

2.4. Evaluation of risk management system in operations of Bank Ochrony Środowiska S.A.

The Bank operates a risk management system which fulfils supervision requirements set forth, in particular, in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal capital in banks.

The purposes and rules of the System have been set forth in the Banking Risk Management Strategy of Bank Ochrony Środowiska S.A.

The Supervisory Board supervises the risk management system and evaluated its suitability and effectiveness, in particular, through:

- approval of the acceptable general risk level set by the Bank Management Board and monitoring of observance of that level,
- approval of the risk management strategy adopted by the Bank Management Board and monitoring of observance thereof,
- supervision of preparation, adoption and implementation of policies and procedures on the basis of which the Bank's risk management system is to function, including relevant contingency plans,
- setting rules for drawing and submitting management information on types and volumes of risk in Bank's operations to the Supervisory Board,
- annual evaluation of adequacy and effectiveness of the risk management system.

In 2019 the Supervisory Board, with active involvement of the Risk Committee, exerted supervision of the functioning and effectiveness of the risk management system and evaluated its suitability, in particular, through:

- internal tools, including:
 - reports and information specified in the management information system
 - the principle arising from the requirements of the supervisory recommendations, acceptance of risk appetite and tolerance and key system solutions subject to individual risk management policies,
- external tools, including:

- results of KNF's BION assessment, carried out in accordance with the Methodology of audits and supervisory assessment of commercial banks, associate cooperative banks and cooperative banks (BION assessment),
- results of audits conducted by external authorities, particularly by: the Office of the Financial Supervision Authority, the General Inspector of Financial information and Bank Gospodarstwa Krajowego,
- reports and opinions of an external auditor issued following examinations of the financial statements of the Bank and of BOŚ S.A. Capital Group;
- Bank's ratings granted by Fitch Ratings Ltd.

As a result of the exerted supervision, having implemented the Risk Committee's recommendation, the Supervisory Board evaluated the effectiveness and adequacy of BOŚ S.A. risk management system at grade "Adequate and effective with shortcomings" (on the scale of 1 to 4, where 1 is the best grade). The evaluation of the risk management system for 2019 is the same as in 2018.

By retaining the unchanged evaluation the Supervisory Board took into account the position of the Financial Supervision Authority, which, following the BION assessment as at 31 Dec. 2018 (provided to the Bank in October 2019) retained the evaluation granted as at 31 Dec. 2017.

The KNF evaluated capital management and capital adequacy in the Bank higher than the year before. However, grade for the operational risk was lower due to the Bank's oversight in obligations regarding anti-money laundering and counter-terrorism financing and the grade for market risk, mainly due to periodic irregularities in the Bank's performance of the investment company's agent. Evaluation of the majority of areas of Bank's operations remained at the unchanged level compared to the previous assessment.

The main factors that determine the evaluation in individual areas include:

- capital adequacy, including, in particular the following elements:
 - capital ratios, which as at 2019-end remained above the required limits – total capital ratio (TCR) was at 16.58 per cent, i.e. above the minimum level specified in the art. 92 CRR Regulation, i.e. 8 per cent and above the minimum level recommended by the KNF i.e. 14.04 per cent, including additional requirement for FX mortgage loans for households (0.54 per cent), capital conservation buffer (2.5 per cent) and systemic buffer (3 per cent), and also above the Bank's warning threshold (14.29 per cent);
 - leverage ratio as at the end of 2019, which was at 9.77 per cent, versus 3 per cent set as the minimum value by the Basel Committee;
- liquidity adequacy, including, in particular, the following facts:
 - high KNF's assessment for Bank's liquidity resources (as a result of completed stress-tests, in accordance with scenarios and parameters set by the KNF Office), and also the short-term liquidity and long-term liquidity ratios at, respectively: 131 per cent (supervision standard 100 per cent) and 109.4 per cent (supervision limit at 100%, effective from 28 June 2021);
 - Bank's continuation of actions to gradually reduce the balance sheet

mismatch regarding currencies and due dates. In 2019, as a result of performed actions, as well as reduction of CHF loan balance following a natural depreciation of the portfolio, the CHF mismatch was reduced by 21m CHF;

- Bank’s implementation of “EBA guidelines on the management of interest rate risk arising from non-trading book activities” (EBA/GL/2018/02) of 19 July 2018. The Bank has been classified into category II for the purpose of the BION 2019 process and since 30 June 2019 it has been obligated to apply EBA Guidelines and set the Supervisory Outlier Test – SOT;
- review of the monitoring of the internal liquidity adequacy assessment process (ILAAP);
- credit risk and credit concentration risk, including in particular, the following factors:
 - the share of the loan portfolio revealing impairment losses in the total loan portfolio, which at the end of 2019 totalled 10.2 per cent and the ratio of write-off coverage for amounts due revealing impairment which was at 52.9 per cent (both values were better than figures assumed in the Recovery Proceedings Program);
 - Bank’s consistent limitation of the loan concentration levels, including in particular exposures to wind farms. The share of wind farm portfolio as at 31 Dec. 2019 totalled 11.9 per cent of the total loan portfolio (14.3 per cent the year before) and the write-off coverage ratio for loans revealing impairment losses for the wind farm portfolio was at 64.9 per cent. As at 2019-end 82 per cent of the wind farm portfolio was classified to the group of exposures not qualified for posting as impaired (versus 56 per cent at the end of 2018). In 2019 the bank did not grant any new financing in the windfarm portfolio;
 - Bank’s preparation and implementation of a policy for managing non-performing exposures and the operational plan for managing non-performing and restructured exposures – according to EBA Guidelines EBA/GL/2018/06 on management of non-performing and forborne exposures of 31 Oct. 2018. The Policy specifies a strategy providing for reduction of NPEs over time. The operational plan covers the period of up to 2021 and supports strategic activities;
 - continuation of rearrangement of active corporate and retail client risk assessment models and optimisation of the process of monitoring, undertaking credit decisions and processing of loan applications.
- Operational risk where the Bank was given lower rating than the year before, due to irregularities in the bank’s fulfilment of anti-money laundering and counter-terrorism financing obligations.

Additionally, when evaluating the Bank’s risk management system, the Supervisory Board took into account the following issues:

- In January 2019 Fitch Ratings Ltd raised Bank’s company rating up to BB- and kept outlook stable. As the main reasons for this decision, the Agency pointed to, among

other things, strengthening of Bank's capital buffers, realisation of assumptions specified in the strategy and mitigation of the risk of concentrating Bank's commitment to wind farm exposures in comparison to the previous review. The Agency confirmed Bank's higher rating in October and December 2019;

- threats posed by the portfolio of FX mortgage loans for retail customers, as it is potentially possible that the unfavourable external factors, including macroeconomic and regulatory, may materialise, as well as the growth of risk posed by rulings of the Court of Justice of the European Union (CJEU) unfavourable to banks in matters regarding CHF-indexed/ denominated loans. The total amount of reserves set aside for legal risk posed by FX mortgage loans as at the end of 2019 amounted to 23.2m PLN;
- Bank's continuation, in 2019, of the Recovery Proceedings Program scheduled for completion in 2021. At the end of December 2019 Bank's economic and financial situation, measured by basic financial results and effectiveness ratios, was better than assumed in the Recovery Proceedings Program. The generated net result totalled 80.7m PLN and was 18.3m higher than anticipated in the Recovery Proceedings Program and 24.6m PLN higher than the threshold value which was the prerequisite for the proper accomplishment of the Recovery Proceedings Program (56.1m PLN). The share of loans with recognized impairment at the end of 2019 totalled 10.2 per cent or 2.7 p.p. below the level assumed in the Recovery Proceedings Program and 5.3 p.p. below the threshold value anticipated in the Recovery Proceedings Program (15.5 per cent).
- implementation – by the end of 1Q2019 – recommendations issued after the comprehensive audit conducted by the Financial Supervision Authority Office in 2017,
- Rules adopted by the Bank in the process of banking risk management, i.e.:
 - the Bank's risk management system consists in an extensive set of internal regulations compliant with external regulations adopted by the Bank Management Board and approved by the Supervisory Board – according to the provisions of the Bank's Articles of Association. Bank's core document describing the risk management system is the "Banking Risk Management Strategy of Bank Ochrony Środowiska S.A.". The purpose of this document is, in particular, to define appetite for significant types of risks undertaken by the Bank and capital adequacy tolerance. Detailed methods of managing individual types of risks identified in Bank operations were set in dedicated regulations. The risk regulations were in 2019, like in previous years, regularly reviewed and adjusted to the Bank's risk profile and the risk appetite as well as to the changes of the regulatory and economic environment within which the Bank operated;
 - in order to ensure accomplishment of objectives of the risk management system the Bank defined roles, obligations and rights of bodies and individual organisational units participating in the risk management process and mutual interactions between the process stakeholders. The Bank implemented a model of three lines of defence against the risk and defined roles of individual Bank units in individual defence lines. In particular, the Bank set responsibilities of its individual authorities, i.e. Supervisory Board, Supervisory Board's Risk Committee and Bank Management Board, as well

as of the Management Board Member supervising Head Office organisational units in charge of identification and measurement of major risk types and relevant Bank Head Office committees, in particular: Assets and Liabilities Committee (and ALCO Liquidity and Market Risk Committee supporting the Assets and Liabilities Committee), Operational Risk Committee, Credit Risk Management Committee and Head Office Credit Committee;

- Bank's risk management process is supported by a set of quantitative internal risk limits. This set comprises internal limits, proportionate to the scale and complexity of Bank operations, limiting the risk level. The internal limits are each year reviewed and adjusted to the Bank's risk appetite/tolerance accepted by the Supervisory Board. In 2019 Bank's risk norms and internal limits, including appetite and tolerance norms approved by the Supervisory Board and supervision norms were not exceeded;
- the Bank operated a formalized process of model risk management. In 2019 the bank carried out seven periodic validations of major models used within the credit risk area, one validation of implementation and one ad-hoc validation of a non-significant model from the financial risk area (as part of Bank's adjustment to EBA guidelines regarding interest rate risk in the banking book). The conducted validations pointed to low or moderate risk of these models. At the end of 2019 the aggregated risk of all significant models fit within the risk tolerance limit adopted by the Bank Management Board, in compliance with the Risk Model Management Policy;
- the Bank, as the dominant entity, supervises the risk management system in BOŚ S.A. Capital Group. In order to work out a uniform risk management system in the Capital Group the Bank aims at introducing, in its subsidiaries, mechanisms allowing risk management based on solutions adopted in the Bank;
- Effectiveness of the risk management system in place was verified by the compliance unit as part of the internal control function and by the internal audit unit as part of the conducted audits, in accordance with the adopted audit plan. The final assessments of risk identified in planned systemic audits conducted in the Risk Area were satisfactory. Conclusions following audits and issued recommendations were reported to the Internal Audit Committee and to the Bank Supervisory Board on a quarterly basis.

Report on the evaluation of the functioning of the 2019 Remuneration Policy including a draft of evaluation of the deciding authority to determine whether BOŚ S.A. Remuneration Policy favours development and security of Bank's operations.

According to the "Corporate Governance Rules for Supervised Institutions" issued under Resolution No. 218/2014 of the Financial Supervision Authority on 22 July 2014, the Bank Supervisory Board evaluated the functioning of the Remuneration Policy in Bank Ochrony Środowiska S.A. in 2019.

When performing its evaluation, the Supervisory Board took into account these facts, in particular:

1. The Bank has a Remuneration Policy in place which determines the form, structure and manner of setting remuneration for the members of the company bodies and its key managers.
2. Remuneration of members of a supervision and management body in BOŚ S.A. is set adequately to the position held and also to the scale of the Bank's activity.
3. Incentive programs for the members of BOŚ S.A. Management Boards and its key managers make the variable remuneration level dependent on the company's long-term financial condition and long-term growth of the Bank's shareholder value.
4. To attach the remuneration of the Management Board members and key managers with long-term business and financial objectives, the Bank executes the provisions of the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal equity in banks, including:
 - a. through payment of a part of the variable remuneration in BOŚ S.A. shares,
 - b. through deferral of a part of the variable remuneration in 3 equal annual payments and payment depending on the Bank's financial results generated for the past 3 years of BOŚ S.A. operations.
5. The Bank operates the Remuneration and Nomination Committee formed out of the Supervisory Board Members.
6. Remuneration of the Supervisory Board Members does not depend on options and other derivative instruments or any other variable remuneration components.

7. In 2019 remuneration of the Supervisory Board Members and of Management Board Members fulfilled the requirements of the Act of 9 June 2016 on the rules for calculation of remunerations of persons managing certain companies and was adjusted to the Bank's financial condition. This fulfilled the requirement set forth in Par. 28 section 2 of the *Corporate Governance Rules for Supervised Institutions*, according to which the remuneration policy must take into account the institution's financial condition. This resulted in the following consequences:
- a. *remuneration of BOŚ S.A. Supervisory Board Chairman paid in 2019 falls into 12 per cent of the lowest remunerations paid in 2018 to chairs of supervisory boards of banks within the peer group*),*
 - b. *similarly, remunerations of BOŚ S.A. Supervisory Board Members paid in 2019 fall into 10 per cent of the lowest remunerations paid in 2018 to members of supervisory boards of banks within the peer group*),*
 - c. *remuneration of BOŚ S.A. Management Board President paid in 2019 is about two and a half times lower (40 per cent) than the lowest remuneration of a management board president of the next bank from the peer group*) paid in 2018,*
 - d. *average remunerations of BOŚ S.A. Management Board Members paid in 2019 is about 1/3 lower (65 per cent) of the lowest remuneration of a management board member of the next bank from the peer group*)⁶ paid in 2018.*

Due to the lack of data, this material analyses remunerations of people holding positions in management and supervisory bodies of peer banks paid in 2018.

8. Base remuneration of BOŚ S.A. senior management paid in 2019 constitutes ca. 72 per cent of the median of base salaries paid in 2019 to top managers in the banking sector, while the total remuneration – by ca. 61 per cent. There has been 5 per cent drop in the competitiveness of basic remunerations compared to 2018.
9. Bank Ochrony Środowiska S.A. in its Annual Financial Statement and in the Report on the Management Board operations presents major information on the manner of remunerating the Bank Supervisory Board and Management Board Members and other key managers.
10. Bank Ochrony Środowiska S.A. periodically reports, to the Supervisory Board and management Board Members, on the status of the remuneration policy, both with regard to key managers and employees working on individual positions, allowing for the assessment of the Remuneration Policy from the perspective of accomplishment of the policy goals, particularly, long-term growth of the company shareholder value and stability of the Bank's operations.

⁶ *) The peer group defined by the KNF as at 31 Dec. 2019, except BOŚ S.A., contains 12 other banks: PKO BP, PEKAO S.A., Bank Handlowy, ING Bank Śląski, Santander, mBank, Millenium, Deutsche Bank, BGŻ Paribas, Getin Noble, Alior, Idea Bank.

11. Average total monthly remuneration of BOŚ S.A. employees (excluding remunerations of the Management Board and the Supervisory Board) paid in 2019 constitutes 88 per cent of average gross monthly remuneration in the insurance and financial sector in the period of 1-3Q2019 according to the Central Statistical Office (GUS) data.

The total remuneration offered to BOŚ salesforce employees revolves around 80 per cent of average gross monthly remuneration in the insurance and financial sector in the period of 1-3Q2019 according to the Central Statistical Office (GUS) data.

These data are deemed adequate in the context of Bank's lower effectiveness against the background of the sector and due to the Bank's continued execution of the Recovery Proceedings Program. As the financial results are growing, the Bank will be aiming at adjusting the total remunerations to market standards through the development of variable remuneration systems in order to remain capable of acquiring and retaining personnel with qualifications necessary to accomplish Bank's Strategy and goals.

12. Directors of the internal audit unit, compliance unit, legal unit, organisational units responsible for 2nd level risk management, HR unit, are paid salaries – in the scope of the variable salary part – for the achievement of goals arising from their positions and the variable remuneration of these persons is not dependent on the financial results of areas of Bank operations these persons control.

Draft of evaluation of the deciding authority to determine whether BOŚ S.A. Remuneration Policy favours development and security of Bank's operations.

Bank's General Meeting, as part of execution of the provisions of Resolution No. 218/2014 of the Financial Supervision Authority of 22 July 2014 on the "Corporate Governance Rules for Supervised Institutions" as well as:

- following the principle of prudent and stable management of risk, capital and liquidity, and special care for long-term good of Bank Ochrony Środowiska S.A. and shareholders' interest,
- taking into account the results of the Supervisory Board's evaluation of the functioning of the Remuneration Policy in BOŚ S.A. in 2019, confirming its transparency and compliance with regulations,

hereby concludes that in the judgement of the deciding authority the Remuneration Policy in BOŚ favours the development and security of Bank's operations.

Evaluation of rationale of the Bank’s policy of sponsoring, charitable or similar activity or information on the absence of such a policy.

The policy of sponsoring, charitable or similar activity pursued by the Bank is based on the Sponsoring Policy of Bank Ochrony Środowiska which was given a positive opinion by the Bank Supervisory Board on 12 July 2016. It supports the execution of the Framework Strategy of Development of Bank Ochrony Środowiska S.A. for 2016-2021 with regard to building long-term value of Bank’s operations for: the shareholders, customers, partners, employees and the society. Detailed rules for undertaking sponsoring activities are regulated in the “Rules for organisation of marketing activity of Bank Ochrony Środowiska”. The direct executor of these rules is the Communication and Marketing Department. Additionally, Bank’s charitable activities focused on the abovementioned goals are performed by the BOŚ Foundation.

In 2019 sponsoring and other similar activities were directed at supporting retail and corporate businesses through of the Bank as an expert in financing ecological projects, a business partner and a socially engaged institution present at the scenes of events which are important in the light of the Bank’s mission, interests of its owners and the values specified in the Framework Strategy of Development of Bank Ochrony Środowiska S.A. for 2016-2021. In particular, the sponsoring activity supported the following three values:

- responsibility – our ambition is to create a socially focused and responsible in terms of environment protection. We feel responsible for the creation of solutions ensuring continuous development and market advantage of the Bank and satisfaction of its Stakeholders. We keep our promises and always fulfil our obligations. In our work we are driven by honesty and reliability,
- engagement – through our engagement, knowledge and work we build an effective and efficient organisation for our Shareholders, Customers, Partners and Employees,
- trust – we are a Polish bank which guarantees stability and protection of Customer values, supporting economic and social development of the country.

By accomplishing the above-mentioned goals, the Bank engaged in the following sectoral conferences and cultural events in order to improve the Bank’s image among opinion-makers:

Item no.	Event, conference, seminar	When in 2019
1	PowerPol – National Energy and Heating Congress	January

2	Thermal Insulation Forum	April
3	National Energy Summit – OSE GDAŃSK	April
4	World Earth Day for families	May
5	Bank's promotion in film "Łukasiewicz nafcierz romantyk"	May
6	RES conference during Green Power Fair in Poznań	May
7	International EKO FORUM Congress in Supraśl	May
8	Conference at Łódź University "Security, regulation and competition on the Energy market"	June
9	Finance Week XIII	June
10	Energy Transformation Forum 2019	June
11	"Environment Protection Days " – State Forest Administration, Łazienki Królewskie	June
12	Socially responsible company - Instytut Myśli Schumana Foundation	July
13	Following Schuman - Instytut Myśli Schumana Foundation	August
14	Zadziw Harvest Festival	August
15	Widawa Harvest Festival	August
16	Bełchatów Harvest Festival	September
17	Corporate Power Purchase Agreement Seminar	September
18	2nd Inland Sailing Congress	September
19	National Economic Summit Siedlce	September
20	Conferences of the SGGW University's Finance Department	October
21	Banking Forum	October
22	Promotion at University of Economics in Poznań	October
23	6th Farming Forum Bydgoszcz	October
24	RES auctions 2019 – workshop	November
25	Piotr Kula – Polish Sports Sailor	December

In 2019 the budget spent on activities in this area totalled 134,664.37 PLN.

BOŚ SA Supervisory Board's Evaluation of:

- 1) Bank's application of "Corporate Governance Rules for Supervised Institutions", issued by the Financial Supervision Authority on 22 July 2014,**

and

- 2) the manner of the Bank's fulfilment of informational obligations regarding application of corporate governance rules, specified in the Rules of the Warsaw Stock Exchange and regulations on current and periodic information in 2019 provided by issuers of securities.**

Executing obligations specified in Par. 27 of "*Corporate Governance Rules for Supervised Institutions*" and the detailed rule II.Z.10.3. of *Good Practices of Companies Listed on WSE 2016*, as well as of Par. 4 section 4 of the Rules of the Supervisory Board of Bank Ochrony Środowiska S.A., an analysis was conducted to evaluate the application, by Bank Ochrony Środowiska S.A. („Bank”) in 2019 of "*Corporate Governance Rules for Supervised Institutions*" issued by the Financial Supervision Authority on 22 July 2014 and of the manner of Bank's fulfilment of informational obligations regarding the application of the corporate governance rules set forth in the Rules of Warsaw Stock Exchange („Stock exchange") and regulations applicable to current and periodic information provided by issuers of securities. The results of this analysis are as follows:

1. Bank's application of „Corporate Governance Rules for Supervised Institutions", issued by the Financial Supervision Authority on 22 July 2014

The Bank, since 1 January 2015, has been applying and observing "Corporate Governance Rules for Supervised Institutions" ("Corporate Governance Rules"), introduced under Resolution No. 218/2014 of the Financial Supervision Authority of 22 July 2014.

The Corporate Governance Rules have been adopted for application by individual Bank bodies:

- BOŚ S.A. Management Board – initially in Resolution No. 321/2014 of 12 Dec. 2014 and afterwards in Resolution No. 108/2018 of 8 May 2018 on the scope of BOŚ S.A. application of "Corporate Governance Rules for Supervised Institutions" issued by the Financial Supervision Authority;
- BOŚ S.A. General Meeting – initially in Resolution No. 35/2015 of Ordinary General Meeting of 10 June 2015 and afterwards in Resolution

No. 28/2018 of the Ordinary General Meeting of BOŚ S.A. on the scope of BOŚ S.A. Shareholders' application of "Corporate Governance Rules for Supervised Institutions" issued by the Financial Supervision Authority.

Information on adoption, for application by Bank Ochrony Środowiska S.A. of "Corporate Governance Rules for Supervised Institutions" issued by the Financial Supervision Authority" was presented by the Bank on its web site in section Investor Relations.

In 2019 all the Corporate Governance Rules were applied with the exception of one specified in Par. 8.4, saying: *"The supervised institution, when justified by the number of shareholders, should aim at making easier for all the shareholders to participate in a meeting of a decision-making body of the supervised institution by, among other things, ensuring the possibility of electronic active participation in the meetings of the decision-making body."*

The Bank analysed the possibility for the shareholders to participate in the sessions of the Ordinary General Meetings of the Bank by electronic means on the example of the Bank's Ordinary General Meeting in 2019.

Taking into account the structure of shareholders as well as logistic and technical issues, in 2019 the Bank Management Board upheld the so-far position on the departure from application of Par. 8 section 4 of the Corporate Governance Rules, thus, the Bank does not broadcast the sessions of the general meetings in real time, when the Shareholders, using electronic communication means, could make statements and vote without being present on the site of the session. The Bank's Articles of Association and the Rules of Bank's General Meetings do not provide for the possibility of Shareholders to participate in a general meeting session using electronic communication means.

The Bank ensures transparency of its information policy regarding the course of the general meeting sessions by registering the session and publishing audio records on its web site, in section General Meeting.

So far, the Bank has not received any information from its shareholders on non-application of the rules, except for a statement of a majority shareholder (NFOŚiGW) submitted during an Ordinary General Meeting, in relation to the adoption of Resolution No. 35/2015 of Ordinary General Meeting of 10 June 2015 that "the terms and conditions of granting support, both with regard to financial liquidity and additional capitalisation, in the case of NFOŚiGW are set forth in common legal regulations in force, particularly in the Act on the protection of environment and Act on public finance. The actions provided for in the Rules are regulated by these norms".

In order to ensure observance and appropriate application of the Corporate Governance Rules in the Bank, organisational units were established which are responsible for the implementation and execution thereof.

The text of the "Corporate Governance Rules for Supervised Institutions" is available at Bank's website www.bosbank.pl section Investor Relations.

2. Evaluation of the manner of the Bank's fulfilment of informational obligations regarding application of corporate governance rules, specified in the Rules of the Warsaw Stock Exchange and regulations on current and periodic information provided by issuers of securities

2.1 Application of Good Practices of Companies Listed on WSE 2016 with reference to informational obligations arising from the Rules of the Warsaw Stock Exchange

"Good Practices of Companies Listed on WSE 2016" ("Good Practices"), issued under Stock Exchange Supervisory Board's Resolution No. 26/1413/2015 of 13 October 2015 have been applied and observed in Bank Ochrony Środowiska S.A. since 1 January 2016. They have been adopted for application by:

- BOŚ S.A. Management Board – in Resolution no. 491/2015 of 29 December 2015 within the extent applicable to the competence and duties of the Management Board, i.e. managing the Bank's matters and representation, in accordance with legal regulations in force and with Bank's Articles of Association;
- BOŚ S.A. Supervisory Board – Resolution No. 6/2016 of 7 January 2016 to the extent applicable to the competence scope and duties of the Supervisory Board, in accordance with legal regulations in force and with Bank's Articles of Association;
- General Meeting of BOŚ S.A. – in Resolution No. 20/2016 of the Ordinary General Meeting of 23 June 2016 on the scope of corporate governance rules included in "Good Practices of Companies Listed on WSE 2016".

The Rules of the Warsaw Stock Exchange ("Stock Exchange Rules") set forth informational obligations regarding the application of corporate governance rules. Par. 29 Section 3 of the Stock Exchange Rules states that when a given detailed corporate governance rule is not applied in a permanent manner or is violated incidentally, the issuer is obligated to publish a report on that matter on an official website and in a manner equivalent to the one applicable to the publication of current reports, via the Electronic Information Database (EBI) in accordance with the rules set forth in the WSE Management Board's Resolution No. 1309/2015 of 17 December 2015.

Good Practices were adopted for application by the Management Board, Supervisory Board and General Meeting, with the exception of the Rules which the Bank Management Board publicised by publishing a current report on 24 July 2016 via the EBI system and by making it available on its website. With regard to the Rules applied by the shareholders, Good Practices adopted for application by BOŚ S.A. General Meeting were additionally published in Current Report No. RB 36/2016 of 24 June 2016.

The Bank does not apply, in a permanent manner, the following corporate governance rules specified in "Good Practices of Companies listed on WSE 2016" valid since 1 Jan. 2016.

- 1) Rule I.Z.1.15. applicable to diversity policy with regard to the company authorities and its key managers.
The diversity rules applicable to employees (including key managers) have been included in the Rules of Work of BOŚ S.A.; with regard to the company authorities, there is no such a solution.

- 2) Rule “IV.Z.2. applicable to ensuring real-time transmission of the general meeting session.”

Explanation of non-application of rules I.Z.1.15, IV.Z.2 and information on the status of implementation of recommendations and detailed rules by BOŚ S.A. according to rule I.Z.1.13. has been published on Bank’s website www.bosbank.pl section “Investor relations”

In order to ensure observance and appropriate application of Good Practices in the Bank, organisational units were established to implement and execute them.

The conducted analysis of the Bank’s application, in 2019, of the corporate governance rules included in Good Practices confirms the fact of appropriate fulfilment of this obligation by the Bank.

2.2 Bank’s application of Good Practices of Companies Listed on WSE 2016 with regard to informational obligations set forth in regulations on current and periodic information provided by issuers of securities.

In accordance with Par. 70 section 6 (5) Finance Minister’s Regulation of 29 March 2018 on current and periodic information presented by issuers of securities and on the terms of acceptance as equivalent of information required by the laws of a non-member state („Regulation”), the report on the issuer’s activity should contain a declaration on the application of the corporate governance rules, constituting a separate part of that report. The Regulation also specifies the scope of information which must be contained in the declaration on the application of the corporate governance rules.

The Bank, by executing the abovementioned obligations in 2020, included, in the Management Board’s Report on the Activity of Bank Ochrony Środowiska S.A. Capital Group in 2019 along with the Report on the Activity of Bank Ochrony Środowiska S.A. “Declaration on Application of Corporate Governance Rules” containing all the elements set forth in Par. 70 Section 6 (5) of the Regulation.

When drawing the declaration on application of the corporate governance rules the Bank also applied (European) Commission Recommendation 2014/208/EU of 9 April 2014 on the quality of corporate governance reporting (‘comply or explain’).

Additionally, as part of execution of detailed rule I.Z.1.12 of Good Practices, the Bank’s Declaration on Application of Corporate Governance Rules in 2019 was published on Bank’s website.

Summary

Summary

The requirement of the Supervisory Board’s evaluation of the manner of the Bank’s fulfilment of its informational obligations to apply Corporate Governance Rules arises directly from Rule II.Z.10.3 of “Good Practices of Companies Listed on WSE 2016”.

During the course of the evaluation no violation of the Corporate Governance Rules in 2019 was revealed within the extent adopted for application by Bank Ochrony Środowiska S.A. Taking into account the results of the abovementioned analyses of the Bank's application of "*Corporate Governance Rules for Supervised Institutions*" issued by the Financial Supervision Authority on 22 July 2014 and the manner of fulfilment by Bank Ochrony Środowiska S.A. of informational obligations regarding the application of corporate governance rules set forth in the Stock Exchange Rules and regulations applicable to current and periodic information provided by issuers of securities, the Supervisory Board positively evaluates the Bank's activities in this area, as adequate and compliant with the requirements of these regulations.