



BANK OCHRONY ŚRODOWISKA  
SPÓŁKA AKCYJNA

**REPORT OF THE MANAGEMENT BOARD  
ON ACTIVITY OF THE CAPITAL GROUP OF  
BANK OCHRONY ŚRODOWISKA S.A.  
IN YEAR 2019**

prepared in combination with  
Report of the Management Board  
on activity of Bank Ochrony Środowiska S.A.

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## SUMMARY OF RESULTS OF BOŚ S.A. GROUP

The Capital Group of BOŚ S.A. consists of Bank Ochrony Środowiska S.A., the parent and its direct subsidiaries: Dom Maklerski BOŚ S.A. and BOŚ Leasing Eko Profit S.A. and the indirect subsidiary MS Wind Sp. z o.o. (a subsidiary of BOŚ Leasing - Eko Profit S.A.)

In 2019, in accordance with assumptions of its Development Strategy, the Bank implemented projects in the field of development of electronic distribution channels and adapting of traditional channels to the present market challenges and expectations of Clients. The Bank implemented the new online banking system for retail Clients, and, out of concern for security of electronic transactions, the Strong Customer Authentication (SCA) tool with the BOŚToken mobile application. The Bank has also developed a new, functionally and technologically advanced Web page of the Bank. At the same time, BOŚ S.A. has intensified its activity around the concept of focus on clients, adapting its offer to the needs of the Clients. These assumptions have been translated to a pro-client culture of work and tools enhancing the experience of Clients in their relationships with the Bank. A number of initiatives were taken to broaden the knowledge on environmental protection and to promote environment-friendly attitudes of employees and Clients of the Bank, as well as the local communities. Entities of the BOŚ Group are initiators and active participants of consultations aimed at involving financial institutions in implementation of the program developed by the National Fund for Environmental Protection and Water Management (NFEPWM) entitled "Czyste Powietrze" ("Clean Air"), which is aimed at improving the quality of life and health of inhabitants of Poland through liquidation of air pollution.

### Results of the BOŚ S.A. Group

In 2019, the BOŚ Group substantially improved its financial results. Consistent corrective actions of the Group made it possible to achieve:

- **net income of the Group of PLN 72.0 million**, which reflects an increase by 13.0% in comparison with year 2018,
- **the best net income in the Group's history** in the amount of PLN 420.0 million in 2019, compared to PLN 384.1 million in 2018,
- **improvement in return on equity (ROE)**, which amounted to 3.3% in 2019 compared to 3.2% in 2018<sup>1</sup>,
- **increase in interest margin of the Group** to 2.3% in comparison with 2.0% in year 2018,
- **reduction of the Group's C/I ratio** – to the level of 62.9% in 2019 in comparison with 63.5% at the end of year 2018 (despite the increase in the contribution to the BGF),
- **increase in sales of credits** - the Bank granted 80.8% more credits in comparison with year 2018,
- **increase in the Group's balance sheet total** – as at 31 December 2019, it amounted to PLN 18,487.0 million, which means it was higher by 1.3% in comparison with the amount at the end of year 2018,
- **a significant decrease in the Group's costs of employee benefits** – by 2.6% in comparison with year 2018,
- **a safe capital base of the Group** - the total capital ratio of the Group amounted to 16.39% at the end of year 2019, compared to 17.95% at the end of year 2018,
- **reduction of risk costs of the Bank** to 0.8% for the last 12 months.

### The results of BOŚ S.A.

Net income of BOŚ S.A. in 2019 amounted to PLN 80.7 million, compared to PLN 65.0 million achieved in year 2018, which constitutes an increase by 24.1%. The Bank has improved its core business results. The net interest income increased by 10.0% , and the net fee and commission income - by 2.1%.

Due to rulings of the Court of Justice of the European Union, the bank has established provisions charged to costs for year 2019, related to legal risks associated with loans in foreign currencies secured by mortgage and potential reimbursement of commissions due to early repayment of retail credits for the total amount of PLN 27.9 million. Taking into account the fact that these are external regulatory events,

<sup>1</sup> excluding the impact on results of the Group of charges related to legal risk associated with mortgage loans in foreign currencies and potential reimbursement of commission fees due to early repayment of retail credits, the ROE value at the end of year 2019 is equal to 4.6%.

the net income generated by the Bank excluding these events would have amounted to PLN 107.9 million, being higher by 65.9% in comparison with net income for year 2018.

### Selected profit and loss account items and ratios of the BOŚ Group

		2019	2018	Change in %
Net interest income	[1]	419,987	384,115	9.3
Net fee and commission income		98,373	97,894	0.5
Result on financial instruments measured at fair value through the profit and loss account		44,957	62,590	-28.2
Result on loss of value for impairment		-104,536	-134,090	-22.0
General administrative expenses, in which:	[2]	-361,354	-357,243	1.2
contribution and payments to the BGF		39,986	32,394	23.4
<b>NET PROFIT OF BOŚ S.A. GROUP</b>		<b>71,994</b>	<b>63,728</b>	<b>13.0</b>

[1] Net interest income of the Group was higher by PLN 35.9 million in year 2019. This increase was influenced mainly by costs of own bonds being lower by PLN 18.7 million, that is, by 50.1%. Costs of bank accounts and deposits of individual customers decreased by PLN 11.5 million, i.e., by 8.3%. Costs of bank accounts and deposits of institutional clients dropped by PLN 8.4 million, i.e., by 15.1%. This reduction in interest expenses was caused mainly by reduction of interest rates. Interest revenues decreased by PLN 0.7 million, i.e. 0.1%.

[2] General administrative expenses of the Group decreased by PLN 4.1 million, i.e. 1.2% comparing to year 2018, as a result of the contributions to the BGF higher by PLN 7.6 million. The negative impact of this factor was partially compensated by reduction of other cost items. Costs of employee benefits of BOŚ S.A. Group in 2019 were lower by PLN 4.2 million, that is, by 2.6%, while employment in BOŚ S.A. decreased by 12.1%, and across the entire Group - by 10.9% in relation to the end of year 2018.

### Financial ratios of BOŚ S.A. Group

	2019	2018	Change in p.p.
Return on equity (ROE)	3.3	3.2	0.1
Return on assets (ROA)	0.4	0.3	0.1
Interest margin on total assets	2.3	2.0	0.3
Costs/income (C/I) including a one-off adjustment of the BGF premium	62.9	63.5	-0.6
Risks costs	-0.8	-0.9	0.1
Share of loans with impairment indicator and identified impairment	12.2	13.0	0.8
Total capital ratio (capital adequacy ratio)	16.39	17.95	-1.56

In 2019, BOŚ S.A. Group increased its profitability, which was reflected by improvement in the key effectiveness indicators: BOŚ S.A. Group increased its interest margin to 2.3% from the level of 2.0% in 2018, and the cost/income (C/I) ratio amounted to 62.9% in comparison with 63.5% in year 2018. At the same time, the BOŚ Group generated on behalf of its shareholders an increase in return on equity by 0.1 p.p.

### New loans

In 2019, the Bank granted credits and loans (new sales) for the amount of PLN 4,593 million, which constitutes nominally an almost twofold increase (by 80.8%) in comparison with the level achieved in 2018. Such significant improvement in the level of sales results from implementation of the new business model, based on the Bank's Business Strategy. Thanks to effective reorganizing of the mode of business, sales on behalf of institutional clients grew by 84%, and in the segment of individual customers - by 51.6%. At the same time, implementing the Strategy, the Bank is continuously increasing the share in sales of loans for environment-friendly activity. The amount of new loans for purposes related to protection of the environment and natural resources in 2019 amounted to PLN 1,913.9 million and was higher by 121.3% in comparison with 2018. A great majority of these new pro ecologic loans were addressed to corporate clients.

### Ecological activities

The share of loans granted for activities supporting environmental protection and sustainable development accounts for 34.45% in the Bank's total loan portfolio at the end of year 2019. The balance for pro-ecological loans at the end of year 2019 amounted to PLN 4,448.6 million, including the total exposure of the BOŚ Group to financing of wind farms, amounting to PLN 1,557.1 million

#### **Development of cooperation with the NFEPWM**

The Bank has cooperated actively with its principal shareholder - the NFEPWM. In 2019, this cooperation focused mainly on operational handling of priority programmes, mainly the Prosumpt II programme, and acquisition of new Clients for financing of pro-ecological projects. In the case of institutional Clients, activity was focused mainly on enterprises engaged in investments financed by the NFEPWM in the framework of the Operational Programme Infrastructure and Environment 2014-2020, as well as domestic programmes, including the pilot programme "Ciepłownictwo Powiatowe" (District Heating Systems). Another significant direction of financing consists of projects that fit into the framework of the NFEPWM programmes: "Energia Plus" (Energy Plus) and "Samowystarczalność Energetyczna" (Energy Self-Sufficiency), the latter to be launched soon.

The Bank actively participates in consultations aimed at involving the banking sector in implementation of the NFEPWM programme "Czyste Powietrze" ("Clean Air"), which is aimed at improving the quality of life and health of inhabitants of Poland through liquidation of air pollution. The Bank's offer includes the "Transparent Loan", which provides preferential terms for financing of non-eligible costs of undertakings within the framework of this programme or bridge financing, until the investor obtains a subsidy. Examples of such activities include agreements signed in 2019 by BOŚ S.A. with the City of Nowy Sącz and the City and Commune of Skala. The main objective of these is to support the inhabitants of małopolskie province in replacement of their heating systems with environment-friendly ones and implementation of thermo-modernization projects.

### **Impact of the ruling of the Court of Justice of the European Union (CJEU) in case C-260/18 of 3 October 2019 on the portfolio of foreign currency loans**

As at 31 December 2019, there were 94 pending court cases against the Bank, in the credits and loans denominated mainly in CHF, in which the value of the object of litigation amounts to PLN 15.6 million.

The Bank monitors the domestic judicial practice in proceedings pertaining to mortgage loans in foreign currencies on an ongoing basis. Judging the legal risk, it takes into account the fact that the ruling of the CJEU, referred to above, as well as judicial practice of Polish courts in similar cases may impact in the future an increase in the number of court proceedings, as well as the value of claims made.

As at 31 December 2019, the Bank established a provision in the amount of PLN 7.8 million for current court proceedings - for the legal risk associated with mortgage loans linked to foreign currencies, as well as a provision for future court proceedings and claims - for the legal risk related to mortgage loans linked to foreign currencies in the amount of PLN 15.4 million. In total, provisions in the amount of PLN 23.2 million have been established for legal risks related to denominated credits and loans.

### **The ruling of the CJEU in case C-383/18 of 11 September 2019 concerning the consumer's right to reduction of the loan cost in the case of early repayment of the amount payable on the basis of the loan agreement**

As at 31 December 2019, no court proceedings were pending against the Bank in association with reimbursement of a part of consumer credit costs due to early credit repayment.

The Bank estimates that in the future quarters, the ruling of the CJEU may lead to increase in consumer claims for reimbursement of a part of costs due to early repayment of credits and the associated increase in the number of lawsuits. The scope of impact of the risk on the Bank's result depends on the number of claims filed by clients.

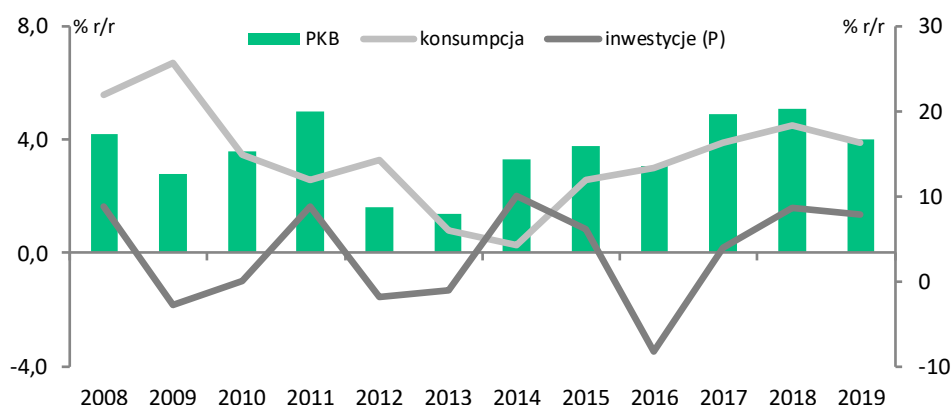
The Bank has charged the net income for year 2019 with a provision for reimbursement of commissions due to early repayment of credits in the amount of PLN 4.7 million.

## I. FACTORS AND EVENTS AFFECTING THE FINANCIAL POSITION OF THE GROUP

### 1. THE MACROECONOMIC SITUATION

In 2019, the pace of growth of the gross domestic product in Poland dropped to 4.0% in comparison with 5.1%, while the condition of global economy visibly worsened. In 2019, the pace of private consumption lowered by 4.0% y/y, compared to 4.5% y/y in 2018, while the investment dynamics grew weaker to reach the level of 6.3% in comparison with 8.7%. By sector, a visible decrease in production dynamics was noticeable on the market of construction - to 2.6% in comparison with 13.7% in year 2018, while the pace of slowdown in industry was lower - to 4.0% in comparison with 5.3% in year 2018.

Year 2019 saw a continuation of the trend of improvement on the labor market. The registered unemployment rate dropped to 5.2% at the end of the year, compared to 5.8% in December 2018. In 2019, the number of unemployed persons decreased by 102.5 thousand people to 866 thousand at the end of the year.

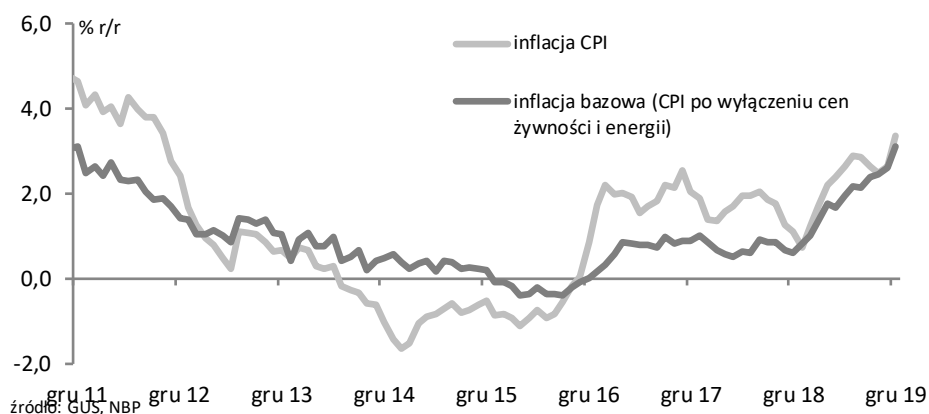


In 2019, the dynamics of prices in economy increased. By annual averages, the CPI index in 2019 amounted to 2.3% in comparison with 1.60% in year 2018. Inflation increased mainly due to greater dynamics of food prices, amounting to 4.9% in comparison with 2.6% in year 2018 - which, among other things, resulted from increase in meat prices on the global market (effects of the ASF disease in China) and reduced availability of vegetables on the market (due to drought). In addition, inflation grew due to such factors as solid demand, cost factors (such as high dynamics of salary levels) and increases of prices of administrative nature (e.g. waste removal).

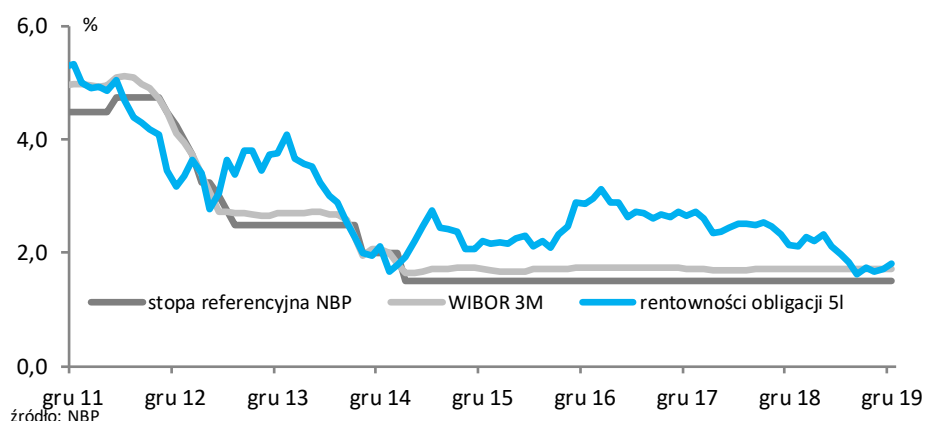
Inflation reduction was, on the other hand, stimulated by lowering of charges for electricity on behalf of individual consumers and lower dynamics of fuel prices.

As a result of these tendencies, in the second half of the year, the CPI value exceeded the inflation target of the NBP at the level of 2.5%, however, remaining within the interval of acceptable inflation fluctuations around the target (1.5% - 3.5%).





Throughout the entire year 2019, the Monetary Policy Council (the MPC) conducted a policy of stable interest rates - the NBP reference rate was at the level of 1.5%. The MPC maintained its intention to stabilize the monetary policy parameters in the medium term. The clear message of the Council contributed to stabilization of loan interest rates on the interbank market - the WIBOR 3M rate reached 1.71% at the end of the year in comparison with 1.72% at the end of year 2018.



In 2019, higher volatility on the global financial market was maintained. It was influenced by further aggravation of trade relations between the USA and China and the related uncertainty with regard to weakening of the condition of the global economy. Another uncertainty factor was the Brexit.

At the same time, increase in risk aversion was limited by the active policy of the leading central banks. During the year, in response to the observed weakening of the global economy under the conditions of accumulation of risk terms, the central banks softened their message, and then, in the second half of the year, they changed the fiduciary policy parameters. The US Federal Reserve (Fed) reduced the interest rates by 50 base points, the European Central Bank reduced its deposit rate by 10 base points and re-launched the programme for buyout of financial assets; meanwhile, the Chinese central bank reduced the compulsory provisions and the basic interest rate.

In the recent months, the market condition improved very clearly due to limitation of the previous risk factors: mitigation of the trade conflict between the USA and China, signals of stabilization of the economic situation, as well as reduction of the risk of chaotic Brexit. Finally, on the annual scale, the synthetic global share market index grew by 3.5%.

Mitigation of the fiduciary policy of main central banks has resulted in a visible reduction of profitability of State Treasury bonds on the underlying markets. In the case of long-term bonds, this decrease amounted to 80 base points on the US market and 30 base points in Germany.

Despite higher global market volatility, the exchange rate of PLN to EUR remained rather stable over the year, within the interval of PLN 4.25 to 4.35 per one EUR. Higher volatility was recorded with regard to the exchange rate of PLN to Swiss franc and American dollar.

Under the conditions of decreasing profitability of bonds on the underlying markets, the stable fiscal condition of Poland and maintained demand for bonds among the domestic bank, profitability of the State Treasury bonds in PLN has dropped significantly - on the annual scale, profitability of 5-year bonds dropped by more than 50 base points, and of 10-year bonds - by 70 base points.

## 2. SIGNIFICANT EVENTS IN YEAR 2019

### ■ Honors and awards

- The mortgage loan of the BOŚ Bank was the winner in the ranking prepared by Bankier.pl. In February 2019, the ranking of mortgage loans of the portal identified the most profitable bank offers for customers planning to purchase an apartment in Gdańsk on the secondary market. The first place was occupied by BOŚ, offering - as specified in the breakdown - the cheapest mortgage loans with minimum contribution.
- In May 2019, two products of the Bank, that is, Eco-Factoring and Eco-Savings Loan, received awards in the plebiscite known as Turbiny Polskiej Gospodarki (the Polish Economy Turbines) organized by Gazeta Finansowa for the "Best products for medium-sized and small enterprises in 2019".
- 12 Best Practices of Bank Ochrony Środowiska were presented in the report "Responsible business in Poland. Best Practices for year 2018", prepared by the Responsible Business Forum. CSR projects were performed by employees of the bank - volunteers and ecologists - and the BOŚ Foundation.
- In June 2019, Gazeta Bankowa once again identified the leaders in Polish finances, awarding prizes to the best banks. The BOŚ Bank received an honorable mention in the category Small and Medium-Sized Commercial Bank.
- In the ranking of cash loans, published in July by Money.pl, the "Letni Luz" (Summer Freedom) of the BOŚ was considered to be number one on the market. The analysis included cash loans for no more than PLN 30 thousand, to be repaid in the period of 60 months. The service considered awarding of the loan to a married couple with total monthly salaries amounting to net PLN 5,273, being hired on the basis of contracts for employment for an unlimited time period.
- In September, the ecological mortgage loan of BOŚ was identified as the best offer in the ranking of "Rzeczpospolita" daily. "In the category of mortgage loans granted in accordance with the standard formula - a loan with no additional products - the winning product is offered by Bank Ochrony Środowiska", "Rzeczpospolita" daily wrote in the ranking of mortgage loans published in September. The gazette checked the financing terms for persons interested in a loan of PLN 300 thousand with the repayment period of 25 years, having one child, employed on the basis of a contract of employment, having no financial liabilities. Therefore, they can prove their good credit history and having no payments in arrears. Among twelve bank offers, the ecological mortgage loan offered by Bank Ochrony Środowiska was identified as the best.
- In September 2019, the Bank was awarded the Green Laurel of the Polish Chamber of Commerce "Eco-Development" for effective support of pro-ecological investments. The "GREEN LAUREL" is a nationwide contest of the Polish Chamber of Commerce "ECO-DEVELOPMENT". It is aimed at distinguishing companies, local authorities, scientific institutions, organizations and persons for special achievements in the field of eco-development, promotion or supporting of protection of the natural environment and those, whose activities generate particularly valuable results from the environmental point of view.
- After the 3rd quarter, the economists of BOŚ maintained their leading position in the contest of economic and market forecasts of the Stock Exchange and Investor Gazette "Parkiet". The forecasting contest of "Parkiet" was joined by more than 20 teams and individual analysts, representing financial institutions. The forecasts prepared pertained to publication of key macro-economic indicators (such as inflation, CPI, GDP, production, unemployment) and market indicators (PLN exchange rate and profitability of State Treasury bonds). So far, the economists of BOŚ have won the contest three times: in 2013, 2017 and 2018.
- In October 2019, the offer of Bank Ochrony Środowiska was awarded the second place in the ranking of the best savings accounts, prepared by the Polish Institute for Quality (PIBJA).
- On 25 October 2019, Bank Ochrony Środowiska was awarded the Ecological Company of the Year title by Gazeta Finansowa. The award is aimed at distinguishing entities for their extraordinary commitment to promotion of environment-friendly attitudes.
- Bank Ochrony Środowiska was also recognized by the Polish Chamber of Ecology - in October 2019, the Bank received from the Chamber a medal "For contribution to sustainable development". The Bank was also honored on the occasion of the 20th anniversary of the Polish Chamber of Ecology "For combining environmental protection activity with work for socio-economic development and cooperation with the Polish Chamber of Ecology".

- In November 2019, Bank Ochrony Środowiska became the Leader of Social Responsibility in the EKO Firma 2019 event. During the Final Gala of the Social Responsibility Leaders Programme, organized as a part of the European Business Forum, BOŚ received the Programme's statuette as the Leader of Social Responsibility: EKO Firma 2019.
- The central office of BOŚ S.A. has received the Green Office Certificate. The certificate confirms the environment-friendly standards of management of the bank and is awarded by independent auditors of the Foundation for Ecological Education on the basis of international standards. Its implementation results in savings through rational management of resources and promotes ecological awareness among employees.

In 2019, Dom Maklerski BOŚ S.A. received the following awards:

- The GPW prize in the category "Leader of the market of derivatives" - for the highest activity on the market of future contracts.
- The Platinum Megawatt Statuette - a TGE award for the highest activity on the gas market, for Brokerage Houses.
- The Financial Brand of the Year for offering services and products of the highest quality on the investment market.
- The Capital Market Hero title - awarded in the poll organized by the Association of Individual Investors, in the Stock Exchange Educator category, for particular contribution to education of individual investors on the stock exchange.
- The 25th anniversary prize - honoring it for contribution to development of the Polish capital market, awarded by the National Depository of Securities (NDS) on the 25th anniversary of its activity.

#### ■ **Confirmation of the rating assessment and maintaining of the Rating outlooks of BOŚ S.A.**

On 17 December 2019, Fitch Ratings Ltd (the Agency) confirmed the rating scores (current report 20/2019) and maintained the Bank's outlooks:

- The Long-term Foreign Currency IDR was maintained at the level 'BB-',
- The Short-term Foreign Currency IDR was maintained at the level 'B',
- The National Long-term Rating was maintained at the level 'BBB-(pol)',
- The National Short-term Rating was maintained at the level 'F3(pol)',
- The Support Rating was maintained at the level '4',
- The Support Rating Floor was maintained at the level 'B',
- The Viability Rating was confirmed at the level 'bb-'.
- The National Long-term Senior Unsecured Rating was maintained at the level 'BBB-(pol)',
- The National Short-term Senior Unsecured Rating was maintained at the level 'F3(pol)',
- The Subordinated Rating was maintained at the level 'BB+(pol)',

The Agency informed that confirmation of the Bank's rating reflected lack of significant changes in the independent loan profile of the Bank as compared to the previous review of the Bank. Upgrading of the rating by Fitch Rating Ltd took place on 11 January 2019 (current report 2/2019).

#### ■ **Notification of transactions involving financial instruments by persons performing managerial duties**

The Bank made public (current report 19/2019) the notifications of transactions involving derivatives (phantom shares) executed by persons performing managerial duties.

The notifications were submitted by the following persons performing managerial duties at the Bank:

- President of the Management Board of the Bank Bogusław Białowas - 18,630 phantom shares,
- Vice President of the Management Board - First deputy of the President of the Management Board Arkadiusz Garbarczyk - 16,405 phantom shares.

The phantom shares awarded constitute the non-deferred part of variable remuneration for year 2018 (60% of the non-deferred part of variable remuneration for year 2018).

#### ■ **Recommendation of the PFSA on the additional capital requirement for Bank Ochrony Środowiska S.A.**

On 12 November 2019, the Management Board of Bank Ochrony Środowiska S.A. (current report 15/2019) received from the Polish Financial Supervision Authority ('PFSA') a recommendation to follow the additional requirement with regard to own funds above the value based on requirements calculated in accordance with the detailed principles specified in regulation 575/2013 by maintaining by Bank Ochrony Środowiska S.A. of own funds to cover additional capital requirements to hedge against the risk arising from foreign currency mortgage credits and loans for households at the level of 0.54 p.p. above the TCR ratio referred to in Article 92 (1) letter c) of the CRR Regulation, which should be composed of, at least, 75% of the Tier I capital (which corresponds to the capital requirement at the level of 0.40 p.p. above the value of Tier I capital which is referred to in Article 92 (1) letter b) of the regulation 575/2013) and of at least 56% of the Tier I core capital (which corresponds to the capital requirement at the level of 0.30 p.p. above the value of Tier I core capital ratio referred to in Article 92 (1) letter a) of regulation 575/2013).

#### ■ **Disposal of receivables**

In 2019, the Bank sold the portfolio of retail loans for the balance of PLN 18.7 million and corporate loans for the balance of PLN 23.0 million (agreements for transfer of lease receivables based on lease agreements concluded between BOŚ S.A. and BOŚ EKO PROFIT S.A.). The estimated impact the retail portfolio sales on the result of the Bank is negative and amounts to gross PLN 1.0 million. The impact of the corporate portfolio sales on the result of the Bank is neutral. The Bank has also sold the corporate portfolio written-off to off-balance sheet records with the balance of PLN 11.4 million - the impact of this sale on the Bank's result was positive, amounting to gross + PLN 1.1 million.

### **3. FACTORS THAT MAY AFFECT THE PERFORMANCE OF THE BANKING SECTOR AND THE GROUP**

#### **Relevant risks in terms of financing of the wind farm portfolio clients by the Group**

Risks identified by the BOŚ S.A. Group, associated with credits granted in the previous years for financing of wind farm projects, described below, are taken into account in the process of individual exposure valuation, conducted in one-month intervals. Valuation is performed on the basis of a dedicated model that allows for simulation of individual cash flows for specific projects by applying the defined and modifiable valuation parameters (variable and periodically updated), among which:

- 1) project productivity (volume of electricity produced and green certificates),
- 2) the projected pricing paths for electricity and green certificates, adopted on the basis of internal analysis, using reports prepared by independent external entities,
- 3) weighted average capital cost (WACC),
- 4) valuation scenarios defining, individually for each project, the probability of regular debt servicing, debt restructuring and debt recovery.
- 5) amount of the calculated real property tax

The Group assesses risk for clients in the wind farming industry, using such indicators as impairment of credit exposures, emergence of a potential money deficit (a financial gap) and bad will (equity value) for the scenario of a potential debt restructuring in the modeled long-term perspective, encompassing the project lifetime.

#### **Risk of a decline in prices of electricity and green certificates**

The risk of variability of market prices of electricity and green certificates has been addressed in the model for valuation of individual exposures from the wind farm portfolio through implementation of pricing lists projected by the Group for the mid- and long-term perspective. The pricing paths are determined and updated cyclically on the basis of reports of renowned independent external experts that the Group has cooperated with since 2016.

Despite the favorable conditions in the sector of wind farms in year 2019, which were appreciated by manufacturers as a result of maintenance of relatively high market prices of energy and ownership rights, the Group applied the principle of prudence in valuation of exposures from the wind farm portfolio in estimation of future cash flows, assuming the price of green certificates in the forecast period below the current market level.

Another factor mitigating the reduction in revenues generated by clients as a result of a periodic drop in prices of green certificates, are funds collected on the reserve accounts, used to support day-to-day credit management; the appropriate contractual provisions obligate the clients to replenish funds on their accounts, if these must be used to repay debts.

### Risk arising from amendments related to the basis for real property tax calculation

On 29 June 2018, the Act on amendment to the act on renewable energy sources and certain other laws was published. Amendment of the Act on RES introduced a change in the definition of a wind farm, thus making it possible to restore retrospectively, from 01 January 2018, the earlier provisions, more favorable for wind farm investors, on the principles of taxation of wind farms with real estate tax, applicable before 01 January 2017.

On the other hand, the Amendment to the Act on RES did not eliminate doubts related to adequacy of the rules with respect to calculation of real property tax for 2017, leaving the final determination of individual cassation appeals made by taxpayers to the Supreme Administrative Court. Therefore, it was impossible to rule out the risk of confirmation by the Supreme Administrative Court of the stance presented earlier by provincial administrative courts (wojewódzki sąd administracyjny - WSA), which in most cases ruled in favor of the local governments. In the light of the above, most clients financed by the Group, not waiting for the ruling of the Supreme Administrative Court, entered into agreements with commune authorities to settle underpaid tax for year 2017 or to pay the difference in installments.

### The risk of a legal dispute of the Group's clients with Energa-Obrót S.A.

Activity of Energa - Obrót S.A. in September 2017, which resulted in cessation of performance of twenty two CPA framework agreements for takeover of property rights based on renewable energy certificates (green certificates) and initiation at proper courts of appropriate civil action against the contract partners and banks for recognition of unconditional invalidity of the agreements concluded, was initiated in relation to 8 clients financed by the Bank. In two cases brought by Energa Obrót S.A., BOŚ S.A. and the clients acted as defendants; however, once the Bank and the clients signed refundable assignment agreements regarding PPL agreements, as the legal interest being the cause of the proceedings ceased to exist, Energa withdrew its claims against the Bank.

Currently, BOŚ S.A. does not act directly as co-defendant in any ongoing court litigation. Therefore, no additional expenses are expected resulting from the disputes run by the clients.

As at 31 December 2019, 6 clients are in court litigations, for the total engagement of the Group amounting to PLN 113.2 million, i.e. 7.3% of the total engagement for exposures linked with the wind farm portfolio. The Bank is conducting ongoing monitoring of status of the ongoing court proceedings, also remaining in touch with the Shareholders and the project Sponsors. Six court disputes initiated by Energa Obrót S.A. have been settled positively for the Group's clients, that is, by dismissal of the claims made by Energa Obrót S.A. two of these pronounced by the common court (1st instance) and the third - by the decision of the Court of Arbitration (Polish: Sąd Arbitrażowy).

All liabilities of these clients due to loans have been settled timely so far.

### The wind farm portfolio:

	31-12-2019	31-12-2018
<b>Receivables from clients measured at amortized cost</b>		
Receivables from clients without impairment indicator:		
Basket 2 - exposures with significant increase of credit risk from the moment of initial recognition, in which:	1,290,953	1,039,500
Receivables from customers with impairment indicator (basket 3) but with no impairment identified, in connection with estimated cash flows, in which:	252,616	603,282
Receivables from clients having evidence of impairment and with identified impairment (Basket 3), in which:	13,553	124,874
<b>Total of receivables from clients - measured at amortized cost (gross)</b>	<b>1,557,122</b>	<b>1,767,656</b>
<b>Impairment loss write-offs for:</b>		
receivables from clients - (Basket 1)	-	-
receivables from clients - (Basket 2)	- 32,837	- 36,867
Receivables from clients - Basket 3 showing no impairment	- 9,633	- 21,378
Receivables from clients - Basket 3 showing impairment	- 8,790	- 31,876
<b>Total impairment write-offs</b>	<b>- 51,260</b>	<b>- 90,121</b>
<b>Total of receivables from clients measured at amortized cost (net)</b>	<b>1,505,862</b>	<b>1,677,535</b>



Receivables from clients measured at fair value through financial result		
Fair value	-	53,083
Total receivables from clients measured at fair value through financial result	-	53,083
<b>TOTAL RECEIVABLES FROM CLIENTS</b>	<b>1,505,862</b>	<b>1,730,618</b>

The share of the wind farm portfolio in the institutional credit segment of the Group amounted (gross) as at 31 December 2019 to 16.7%, which accounted for 11.9% of credits portfolio. In terms of value, the portfolio of wind farms amounted to gross PLN 1,557.1 million as at 31 December 2019.

The level of impaired credits coverage as at 31 December 2019 in the segment of institutional credits amounts to 57.9%, including 64.9% for the wind farms portfolio.

### **The risk of impact of the ruling of the Court of Justice of the European Union (CJEU) in case C-260/18 and of legislative changes on the portfolio of foreign currency loans**

On 3 October 2019, the Court of Justice of the European Union ('CJEU') issued a preliminary ruling in the case C-260/18 Kamil Dziubak, Justyna Dziubak vs. Raiffeisen Bank International AG with a registered office in Vienna, operating in Poland as a branch under the name Raiffeisen Bank International AG Oddział w Polsce, formerly Raiffeisen Bank Polska S.A. with a registered office in Warsaw, which contains an interpretation of provisions of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts in response to preliminary inquiries of the domestic court upon analysis of terms of the loan agreement indexed to CHF.

In the ruling, the CJEU did not refer to the issue of the tortious nature of the contractual clauses, indicating that analysis of all abusiveness indicators and assessment of contractual terms in each individual case separately remains with domestic courts.

The claims made on the basis of denominated credit and loan agreements in general pertain to confirmation of invalidity of a credit/loan agreement, alternatively, to ruling of partial invalidity of agreements of this kind with regard to indexation clauses.

The Bank engages in ongoing monitoring of domestic judicial practice in cases of this kind, and assessing the legal risk related to credits indexed by foreign currency exchange rates takes into account the fact that the ruling of the CJEU of 3 October 2019, as well as rulings of Polish courts in similar cases may result in the future in an increase in the number of lawsuits and value of the claims made.

As at 31 December 2019, the Bank had a portfolio of retail mortgage loans and credits linked to foreign currencies (CHF, EUR, USD) in the amount of PLN 1,527 million, including PLN 895 million in CHF.

As at 31 December 2019, there were 94 pending court cases against the Bank, concerning credits and loans denominated mainly in CHF, in which the value of the object of litigation amounts to PLN 15.6 million. Claims made in lawsuits based on agreements for denominated credits and loans, in general, pertain to recognition of such credit/ loan agreements as invalid, alternatively to recognition as abusive of denomination (conversion) and insurance clauses, regulating the bridge financing security (low down payment insurance and credit insurance until the mortgage is established). In general, the results of lawsuits, which have been concluded with final and binding rulings so far, have been favorable for the Bank.

However, the risk that the standpoint of domestic courts, which so far has been favorable for the Bank (and for banks in general) may change, as a result of which the court rulings may be adverse to the Bank. Materialization of this risk may have a negative impact on results of the Bank in the future.

In the recent period, the banking sector has started to show a tendency to change its approach to establishment of provisions for legal risk associated with credits of this kind and to establishment of provisions for portfolio risks.

Due to the changing judicial practice and the observed increase in the number of lawsuits, the Bank has changed its methodology for establishment of provisions for legal risk related to credits linked to foreign currency exchange rates.

The diversity of court rulings concerning mortgage loans linked to foreign currencies, lack of a defined judicial standpoint at present make it impossible to adapt reliable criteria, making it possible to estimate

the provisions to be adequate to the legal risk associated with this portfolio. At the further stages of legal proceedings, the estimates conducted may prove to be inaccurate.

As at 31 December 2019, the Bank established a provision in the amount of PLN 7.8 million for current court proceedings - for the legal risk associated with mortgage loans linked to foreign currencies, as well as a provision for future court proceedings and claims - for the legal risk related to mortgage loans linked to foreign currencies in the amount of PLN 15.4 million. In total, provisions in the amount of PLN 23.2 million have been established for legal risks related to denominated credits and loans.

#### **The risk of negative impact on results of the Bank of the CJEU ruling on consumer right to reduction of credit cost in the case of early repayment of the amount based on the loan agreement**

On 11 September 2019, the CJEU issued a preliminary ruling in case C-383/18 Lexitor vs. SKOK Stefczyka, Santander Consumer Bank and mBank, which contains an interpretation of provisions of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC.

In response to a preliminary inquiry of a domestic court, the CJEU ruled that the right of a consumer to reduction of the total credit cost in the case of early repayment applies to all costs imposed upon the consumer.

No lawsuits are pending against the Bank for reimbursement of a part of the cost of consumer credits on the basis of the act of 17 December 2009 on pursuing claims in collective proceedings.

As at 31 December 2019, no court proceedings were pending against the Bank in association with reimbursement of a part of consumer credit costs due to early credit repayment.

The Bank estimates that in the future quarters, the ruling of the CJEU may lead to increase in consumer claims for reimbursement of a part of costs due to early repayment of credits and the associated increase in the number of lawsuits.

The scope of impact of the risk on the Bank's result depends on the number of claims filed by clients. The Bank has established a provision for reimbursement of commissions due to early repayment of credits in the amount of PLN 4.7 million.

#### **Other factors**

Other factors that may affect the Bank's results within next quarters include:

- **the risk of material depreciation of PLN against CHF and EUR**  
Such event would result in an increase in the volume of foreign currency loans, which means increase in the capital requirement for these loans. In case of a material and stable depreciation of the PLN against foreign currencies, especially CHF, deterioration of the quality of the portfolio of mortgage loans in foreign currencies is likely;
- **risk of volatility increase on global financial market and downgrading of both the national rating and the Bank's rating**  
Possible effects for the Bank may include the increase in costs of external financing, hindered access to foreign financing and to transactions aiming at currency risk and interest rate management;
- **the risk of interest rates remaining low or subsequent interest rate cuts, in PLN and in foreign currencies**  
Potential further decreases of interest rates would result in the narrowing of the Bank's net interest margin and the decrease of its net interest income due to, among others, statutory limitations in the amount of interest charged, inability to further reduce interest rates for current accounts, or contractual clauses.

## II. FINANCIAL RESULTS AND ACTIVITY

### 1. FINANCIAL RESULTS OF THE GROUP

#### 1.1. PROFIT AND LOSS ACCOUNT OF THE GROUP

Continuing operations	31-12-2019	31-12-2018	Change in %
Interest income and similar revenues	627,590	628,304	- 0.1
Interest expense and similar expenses	- 207,603	- 244,189	- 15.0
<b>Net interest income</b>	<b>419,987</b>	<b>384,115</b>	<b>9.3</b>
Fee and commission revenue	132,065	135,027	- 2.2
Fee and commission expense	- 33,692	- 37,133	- 9.3
<b>Net fee and commission income</b>	<b>98,373</b>	<b>97,894</b>	<b>0.5</b>
Dividend income	6,434	6,069	6.0
Result on financial instruments assessed according to their fair value basing on the statement of profit or loss (including receivables from clients)	44,957	62,590	- 28.2
Result on investment securities	582	2,166	- 73.1
Result on hedge accounting	- 42	1,313	- 103.2
Foreign exchange result	16,503	24,251	- 31.9
Other operating revenue	27,550	23,138	19.1
Other operating expenses	- 38,266	- 21,676	76.5
Result on loss of value for impairment	- 104,536	- 134,090	- 22.0
General administrative expenses	- 361,354	- 357,243	1.2
<b>Gross profit</b>	<b>110,188</b>	<b>88,527</b>	<b>24.5</b>
Tax expenses	- 38,194	- 24,799	54.0
<b>NET PROFIT</b>	<b>71,994</b>	<b>63,728</b>	<b>13.0</b>

In 2019, BOŚ S.A. Group achieved a net profit in the amount of PLN 72.0 million, compared to PLN 63.7 million generated in year 2018.

The Group generated net interest income of PLN 420.0 million, that is, higher by PLN 35.9 million or 9.3% in comparison with year 2018.

Interest revenues and similar revenues decreased by PLN 0.7 million, that is, by 0.1% in 2019 in comparison with 2018, mainly due to decrease in net revenues from individual customers by PLN 10.5 million, that is, 7.9%, and decrease in interest on debt investment securities not held for trading by PLN 6.9 million, that is, 5.0% while interest revenues on receivables from institutional clients grew by PLN 17.6 million, that is, 5.0%. The average base lending rate for credits granted by the Bank increased in 2019 (without the impairment adjustment of interest). In PLN, it amounted to 5.00% in comparison with 4.74% in 2018, and in foreign currencies - 2.48% in comparison with 2.36% in 2018.

Interest expenses lowered by PLN 36.6 million i.e. by 15.0% in comparison with year 2018. This decrease was influenced mainly by lower costs of financial instruments - own debt securities by PLN 18.7 million, that is, by 50.1%. Costs of bank accounts and deposits of individual customers decreased by PLN 11.5 million, i.e., by 8.3%. Costs of bank accounts and deposits of institutional clients dropped by PLN 8.4 million, i.e., by 15.1%.

Reduction in deposit interest expenses was caused mainly by reduction of interest rates. The average base interest rate for deposits obtained by the chain of Bank branches in 2019:

- in PLN amounted to 1.37% versus 1.48% in 2018,
- in other currencies amounted to 0.52% versus 0.58% in 2018.

	in PLN thousand	2019	2018	Change in %
<b>Interest revenues and similar revenues from:</b>		<b>627,590</b>	<b>628,304</b>	<b>- 0.1</b>
Receivables from banks and the Central Bank		3,673	4,256	- 13.7
Receivables from institutional clients		370,635	353,008	5.0
Receivables from individual customers		122,048	132,510	- 7.9
Debt investment securities not held for trading		131,105	137,992	- 5.0



Financial instruments held for trading	129	-	x
Hedge transactions	-	538	- 100.0
<b>Interest expense and similar charges from:</b>	<b>207,603</b>	<b>244,189</b>	<b>- 15.0</b>
Bank accounts and deposits from banks	1,023	1,328	- 23.0
Bank accounts and deposits of institutional clients	47,038	55,395	- 15.1
Bank accounts and deposits of individual customers	126,988	138,495	- 8.3
Bank loans and borrowings	-	320	- 100.0
Client loans and borrowings	818	1,135	- 27.9
Cash from funds designated for credits (JESSICA)	261	418	- 37.6
Financial instruments- issue of own debt securities	18,656	37,394	- 50.1
Hedge transactions	8,772	9,684	- 9.4
IFRS 16 Lease Liabilities	3,933	-	x
Other	114	20	470.0
<b>NET INTEREST INCOME</b>	<b>419,987</b>	<b>384,115</b>	<b>9.3</b>

The Group's result for fees and commissions increased by PLN 0.5 million, that is, 0.5% in 2019 in comparison with 2018 due to the pace of reduction of costs due to fees and commissions being higher (by 9.3%) in comparison with the pace of reduction of revenues (by 2.2%).

	in PLN thousand	2019	2018	Change in %
<b>Fee and commission revenue</b>		<b>132,065</b>	<b>135,027</b>	<b>- 2.2</b>
Brokerage service fees		59,555	62,504	- 4.7
Fees for maintaining customer accounts and other domestic and international settlement transactions		34,791	39,648	- 12.3
Commissions on loans		32,139	27,740	15.9
Commissions on guarantees and letters of credits		5,071	4,636	9.4
Fees related to the portfolio management and other fees related to the management		496	497	- 0.2
Other fees		13	2	550.0
<b>Fee and commission expense</b>		<b>33,692</b>	<b>37,133</b>	<b>- 9.3</b>
Fees related to brokerage activity, in which:		21,235	21,859	- 2.9
- fiduciary services		358	1,849	- 80.6
Payment card fees		7,656	7,456	2.7
Current account fees		1,039	2,198	- 52.7
Fees for services rendered via Euronet		1,134	1,225	- 7.4
Commissions for receivables from customers		617	858	- 28.1
Commissions paid to other banks for cash transactions		1	277	- 99.6
Other fees		2,010	3,260	- 38.3
<b>NET FEE AND COMMISSION INCOME</b>		<b>98,373</b>	<b>97,894</b>	<b>0.5</b>

The Group has achieved higher credit commission revenues by PLN 4.4 million, that is, 15.9%, and higher revenues from commissions on guarantees and letters of credits by PLN 0.4 million, that is, 9.4%. However, a decrease in revenues from brokerage service fees by PLN 2.9 million, that is, 4.7%, and decrease in client account management fees, other settlement transactions in domestic and foreign trade by PLN 4.9 million, that is, 12.3%, has resulted in overall decrease in total fee and commission revenue by PLN 3.0 million, that is, 2.2%.

Fee and commission expenses dropped by PLN 3.4 million, that is, 9.3% due to brokerage fees reduced by PLN 0.6 million, that is, 2.9%, while current account fees were lower by PLN 1.2 million, that is, 52.7% and commissions paid to other banks in cash trade - by PLN 0.3 million, that is, 99.6%.

Dividend revenues for year 2019 were influenced mainly by dividend from Kemipol Sp. z o.o. in the amount of PLN 5.4 million and Wodkan S.A. of PLN 0.8 million. In 2018, dividend paid by Kemipol Sp. z o.o. amounted to PLN 5.8 million, and dividend paid by Wodkan S.A. - PLN 0.1 million.

The result on financial instruments measured at fair value through profit or loss amounted PLN 45.0million, versus PLN 62.6 million in 2018. The main reason for this decrease was the lower net income for receivables from clients, compulsorily measured at fair value through profit or loss in 2019, which amounted to PLN 1.6 million, compared to PLN 16.8 million in 2018.

Net income of the Group on investment securities in 2019 amounted to PLN 0.6 million, compared to PLN 2.2 million in 2018. Reduction of the total net income on investment securities was caused by lower income for sale of securities measured at fair value.

The foreign exchange result amounted to PLN 16.5 million and was lower by PLN 7.7 million, that is, by 31.9% in comparison with year 2018 due to the lower result on valuation operations.

The net income on other operations of the Group amounted to PLN (-10.7) million compared to PLN 1.5 million in 2018. Other operating expenses were charged with write-offs in the amount of PLN 23.2 million for legal risks associated with denominated credits and loans. The write-offs were established in association with the ruling of the CJEU of 3 October 2019 in case C-260/18 Kamil Dziubak, Justyna Dziubak vs. Raiffeisen Bank International AG with a registered office in Vienna.

In 2019, the result on loss of value for impairment amounted to PLN (-104.5) million, compared to PLN (-134.1) million in 2018. The improved result on impairment losses was influenced by lower write-offs for balance-sheet receivables in the segment of institutional clients - by PLN 35.6 million and in the segment of individual customers - by PLN 2.8 million, while write-offs for off-balance sheet liabilities were higher by PLN 13.1 million.

General administrative expenses of the Group increased by PLN 4.1 million, i.e. 1.2% comparing to year 2018, as a result of higher contributions to the BGF. The annual premium for the compulsory bank restructuring fund for year 2019 amounted to PLN 29.3 million. In 2018, it was equal to PLN 14.4 million. In total, contributions to the BGF charged to expenses in year 2019 amounted to PLN 40.0 million, compared to PLN 32.4 million in 2018.

	in PLN thousand	2019	2018	Change in %
<b>Employee benefits</b>		157,053	161,269	- 2.6
<b>Administrative expenses, in which:</b>		<b>148,643</b>	<b>156,191</b>	<b>- 4.8</b>
- material costs		100,158	115,600	- 13.4
- taxes and charges		5,452	5,518	- 1.2
- contribution and payments to the BGF		39,986	32,394	23.4
- contribution and payments to the PFSA		2,819	2,271	24.1
contribution to cover operating costs of the Financial Ombudsman		119	106	12.3
contribution to the Chamber of Brokerage Houses (Izba Domów Maklerskich, IDM)		91	91	-
- other		18	211	- 91.5
<b>Amortization/ depreciation, including:</b>		<b>55,658</b>	<b>39,783</b>	<b>39.9</b>
- fixed assets		12,587	14,240	- 11.6
- intangible assets		25,675	25,543	0.5
- beneficial use rights according to IFRS 16		17,396	-	x
<b>TOTAL GENERAL ADMINISTRATIVE EXPENSES</b>		<b>361,354</b>	<b>357,243</b>	<b>1.2</b>

Material costs in year 2019 in comparison with 2018 were lower by PLN 15.4 million, that is, 13.4%. However, due to implementation of IFRS 16 in year 2019, the data is not fully comparable.

Personnel costs were lower by PLN 4.2 million, that is, 2.6% in relation to 2018, mainly due to optimization of employment. As at 31 December 2019, the Bank had 1,063 (full-time) employees, that is, 12.1% less in comparison with the end of year 2018. Employment in BOŚ S.A. Group decreased by 10.9% compared to the end of year 2018. The table below presents employment (in full-time equivalents) of the Bank and its Subsidiaries.

Employment in full-time equivalents	31-12-2019	31-12-2018	Change in %
Employment in BOŚ S.A.	1,063	1,209	-12.1
Employment in the Subsidiaries	246	260	-5.4
<b>Employment in BOŚ S.A. Group</b>	<b>1,309</b>	<b>1,469</b>	<b>-10.9</b>

## Efficiency and security of the Group operations

Presented below are the key profitability and effectiveness ratios for the Group and their calculation methodology;

	2019	2018	Change in p.p.
Return on equity (ROE) <sup>1</sup>	3.3	3.2	0.1
Return on assets (ROA) <sup>2</sup>	0.4	0.3	0.1
Interest margin on total assets <sup>3</sup>	2.3	2.0	0.3
Risks costs <sup>4</sup>	-0.8	-0.9	0.1
Cost/Income (C/I) <sup>5</sup>	62.9	63.5	-0.6

1) relation of net profit for four quarters to average shareholders' equity,

2) relation of net profit for four quarters to average assets,

3) relation of net interest income to average assets at the beginning and end of the period,

4) relation of the net impairment losses with measurement at fair value for the last 12 months to the average value of credits and loans during this period,

5) relation of the total of general administrative expenses and costs of use to net interest income, net fee and commission income, dividend income, financial instruments result measured at the fair value through the result account without valuation of receivables, result on investment securities, hedge accounting result, foreign exchange result and other operating income.

The interest margin on total assets, calculated as the ratio of net interest income to average opening and closing balance of assets, amounted to 2.3%, compared to 2.0% for year 2018, mainly due to improvement of the structure of assets and reduction of liability costs of BOŚ S.A. Group, as well as increased loan profitability.

The cost/income ratio for 2019 amounted to 62.9% compared to 63.5% for year 2018, mainly due to increase in income, despite increase in the contributions to the BGF by PLN 7.6 million, that is, 23.4%.

The performance indicators excluding the impact on results of the Group of charges related to legal risk associated with mortgage loans in foreign currencies and potential reimbursement of commission fees due to early repayment of retail credits, are as follows: ROE: 4.6%, ROA: 0.5%, C/I: 60.0%.

## Capital management in the Group

According to the CRR Resolution, and the Law of 5 August 2015 on macro-prudential oversight of the financial system and crisis management of the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. Since 1 January 2019, the buffer amounts to 2.5 p.p. The systemic risk buffer is at the level of 3 p.p. and the anti-cyclical buffer is 0 p.p. The BOŚ Capital Group is not required to have the buffer of another institution with systemic importance.

On 13 November 2019, the Polish Financial Supervision Authority recommended maintaining by the Group of its own funds to cover additional capital requirements to hedge against the risk arising from foreign currency mortgage credits and loans for households at the level of 0.52 p.p. above the TCR ratio referred to in Article 92 (1) letter c) of the CRR Regulation, which should be composed of, at least, 75% of the Tier I capital (which corresponds to the capital requirement at the level of 0.39 p.p. above the value of Tier I capital which is referred to in Article 92 (1) letter b) of the CRR Regulation) and of at least 56% of the Tier I core capital (which corresponds to the capital requirement at the level of 0.29 p.p. above the value of Tier I core capital ratio referred to in Article 92 (1) letter a) of the CRR Regulation).

As a result, on 31 December 2019, the minimum capital ratio recommended by the Commission for the BOŚ Group, amount to: 11.89% for the Tier I capital ratio and 14.02% for the total capital ratio TCR.

The capital adequacy ratio of the Group as at 31 December 2019 was above the levels recommended by the Polish Financial Supervision Authority, both with application of IFRS 9 transitional solutions and without them.

In the letter of the Bank Guarantee Fund ("BGF") of 28 October 2019, the Bank was informed of an update of the MREL level. The target MREL level, specified on the basis of consolidated data as at 31 December 2018, amounts to 18.30% of the total risk exposure amount (RWA) or 13.74% of the total of own funds and liabilities.

The Bank is obliged to fulfill the requirement of the minimum level of own funds and liabilities subject to redemption or conversion in the consolidated statements starting from 01 January 2023.

At the same time, the letter indicated a path for reaching of the target MREL level, according to which, as at 31 December 2019, the MREL level for the Bank using the consolidated approach is equal to the TCR ratio (total capital ratio).

The levels of capitals, risk-weighted assets, capital ratios, leverage ratios and internal capital in the BOŚ Group, are presented below:

	in PLN thousand	31-12-2019	31-12-2018
<b>Available capital</b>			
Tier I core capital		2,115,730	2,094,575
Tier I stated capital - without transitional provisions of IFRS 9		2,018,553	1,985,965
Tier I capital		2,115,730	2,094,575
Tier 1 capital - without transitional provisions of IFRS 9		2,018,553	1,985,965
Own funds		2,444,537	2,453,560
Own funds- without transitional provisions of IFRS 9		2,347,360	2,344,951
<b>Risk-weighted assets</b>			
Total amount of risk-weighted assets		14,914 877	13,671,845
- Credit risk and counterparty credit risk		13,430 895	12,423,510
- Operational risk		1,049 826	996,100
- Market risk		418,027	231,851
- CVA Risk		16,128	20,384
Total amount of risk-weighted assets - without transitional provisions of IFRS 9		14,830 847	13,559,014
<b>Capital ratios</b>			
Tier I stated capital ratio		14.19	15.32
Tier I capital ratio - without transitional provisions of IFRS 9		13.61	14.65
Tier I capital ratio		14.19	15.32
Tier I capital ratio - without transitional provisions of IFRS 9		13.61	14.65
Total capital ratio		16.39	17.95
Total capital ratio - without transitional provisions of IFRS 9		15.83	17.29
<b>Leverage ratio</b>			
The value of exposure		20,347 365	19,439,206
Leverage ratio		10.4	10.8
Leverage ratio - without transitional provisions of IFRS 9		10.0	10.3
<b>Internal capital</b>			
Internal capital		1,931 352	1,414 652

## 1.2. Balance sheet total of the Group

Balance sheet total of the BOŚ Group as at 31 December 2019 amounted to PLN 18,487.0 million and increased by 1.3% compared to the end of year 2018.

### 1.2.1. Assets of the Group

As at 31 December 2019, the highest share in the assets, amounting to 64.9%, represented receivables from clients. Their share in assets since the beginning of year 2019 increased by 0.2 p.p. The share of investment securities was reduced by 1.3 p.p. and receivables from other banks - by 0.2 p.p.

	in thousand PLN	31-12-2019	31-12-2018	Change in %
Cash and balances with the Central Bank		297,866	186,736	59.5
Receivables from other banks		165,733	196,104	- 15.5
Financial assets for trade, including:		140,344	87,761	59.9
Investment securities:		5,302,078	5,476,293	- 3.2
Receivables from clients, including:		12,003,794	11,809,527	1.6

<i>measured at amortized cost</i>	11,965,509	11,704,874	2.2
<i>measured at fair value through profit or loss</i>	38,285	104,653	- 63.4
Intangible assets	117,062	120,050	- 2.5
Tangible fixed assets	77,743	68,396	13.7
Beneficial use - lease	79,738	-	x
Income tax assets:	109,418	99,867	9.6
Other assets	193,221	206,291	- 6.3
<b>ASSETS TOTAL</b>	<b>18,486,997</b>	<b>18,251,025</b>	<b>1.3</b>

## Receivables from clients

	in PLN thousand	31-12-2019	31-12-2018	Change in %
<b>Valuation at amortized cost</b>		<b>11,961,192</b>	<b>11,699,841</b>	<b>2.2</b>
<b>Receivables from individual customers</b>		<b>3,552,255</b>	<b>3,707,238</b>	<b>-4.2</b>
loans in current accounts		1,362	494	175.7
cash loans		367,484	275,675	33.3
mortgage loans		2,888,692	3,070,781	-5.9
other credits and loans		294,717	360,288	-18.2
<b>Receivables from institutional clients</b>		<b>8,408,937</b>	<b>7,992,603</b>	<b>5.2</b>
working capital facilities		530,544	449,806	17.9
term credits and loans		7,222,945	6,773,000	6.6
factoring receivables		511,344	402,760	27.0
lease receivables		93,629	55,534	68.6
purchased receivables		50,475	68,791	-26.6
commercial securities		-	242,712	x
<b>Measurement at fair value through financial result</b>		<b>38,285</b>	<b>104,653</b>	<b>-63.4</b>
<b>Receivables from individual customers</b>		<b>1,938</b>	<b>3,101</b>	<b>-37.5</b>
housing credits and loans		648	904	-28.3
other credits and loans		1,290	2,197	-41.3
<b>Receivables from institutional clients</b>		<b>36,347</b>	<b>101,552</b>	<b>-64.2</b>
working capital facilities		195	181	7.7
term credits and loans		36,152	101,371	-64.3
<b>Total</b>		<b>11,999,477</b>	<b>11,804,494</b>	<b>1.7</b>
Security deposits made		4,317	5,023	-14.1
Other receivables		-	10	x
<b>Total receivables from clients</b>		<b>12,003,794</b>	<b>11,809,527</b>	<b>1.6</b>

Receivables from clients of the Group at the end of year 2019 amounted to PLN 12,003.8 million compared to PLN 11,809.5 million at the end of year 2018, which constitutes an increase by 1.6%.

The highest share in total receivables, amounting to 70.1%, was recorded for receivables from institutional clients measured at amortized cost. Their share increased by 2.4 p.p. compared to the end of year 2018. Receivables from institutional clients amounted to PLN 8,408.9 million.

The share of receivables from individual customers measured at amortized cost in total receivables decreased by 1.8 p.p. to 29.6%. Loans of individual customers measured at amortized cost at the end of year 2019 amounted to PLN 3,552.3 million compared to PLN 3,707.2 million at the end of the previous year. The most significant item among these are mortgage loans of balance sheet value of PLN 2,888.7 million at the end of year 2019, compared to PLN 3,070.8 million at the end of the previous year.

	in PLN thousand	31-12-2019	31-12-2018	Change in %
<b>Credits and loans measured at amortized cost</b>		<b>2,888,692</b>	<b>3,070,781</b>	<b>-5.9</b>
Mortgage loans in PLN		1,361,358	1,388,664	-2.0
Mortgage loans in CHF		895,104	974,202	-8.1
Mortgage loans in EUR		592,770	664,489	-10.8
Mortgage loans in USD		39,460	43,426	-9.1
<b>Credits and loans measured at the fair value through profit or loss</b>		<b>648</b>	<b>904</b>	<b>-28.3</b>

Mortgage loans in PLN	648	904	-28.3
<b>MORTGAGE LOANS TOTAL</b>	<b>2,889,340</b>	<b>3,071,685</b>	<b>-5.9</b>

Loans in foreign currencies have 52.9% in the total mortgage loan portfolio (54.8% at the end of 2018). The share of mortgage loans in CHF in the entire credit portfolio of BOŚ S.A. Group (net) was 7.5%, which is less by 0.8 p.p. in relation to the end of year 2018.

## Credits and loans granted during the reporting period

In 2019, the Bank granted credits and loans (new sales) for the amount of PLN 4,593 million, that is, 80.8% more than in 2018 (according to capital value upon granting of credit). Sales to institutional clients grew by 84.0%, and to individual customers - by 51.6%.

	in PLN thousand	2019	2018	Change in %
Loans granted to institutional clients within 1 year		4,205	2,285	84.0
Loans granted to individual customers within 1 year		388	256	51.6
<b>LOANS GRANTED TO CLIENTS WITHIN 1 YEAR</b>		<b>4,593</b>	<b>2,541</b>	<b>80.8</b>

Sale of pro-ecological loans in 2019 amounted to PLN 1,913.9 million, that is, was higher by 121.3% in comparison with the previous year.

## Quality of the Group's loan portfolio

At the end of 2019, impairment allowances on credits and loans amounted to PLN 1,171.0 million. The ratio of impairment allowances to credits and loans granted to clients and banks (gross), measured at the mortised cost and at fair value through profit or loss, as at 31 December 2019, amounted to 8.9%.

The share of gross credits and loans with impairment in the portfolio measured at amortized cost and in credits measured at amortized cost was 12.2% as at 31 December 2019, compared to 13.0% at the end of 2018.

	in PLN thousand	31-12-2019	%	31-12-2018	%
<b>Receivables from clients measured at amortized cost</b>					
Receivables from clients without impairment indicator, including:		11,128,284	84.7	10,314,827	80.9
<i>exposures without significant credit risk increase from the moment of initial recognition (Basket 1)</i>		8,691,476	66.2	8,291,717	65.1
<i>Basket 2 - exposures with significant increase of credit risk from the moment of initial recognition, in which:</i>		2,436,808	18.6	2,023,110	15.9
<i>wind farms</i>		1,290,953	9.8	1,039,500	8.2
Receivables from customers with impairment indicator (basket 3) but with no impairment identified, in connection with estimated cash flows, in which:		402,594	3.1	772,254	6.1
<i>wind farms</i>		252,616	1.9	603,282	4.7
Receivables from clients having evidence of impairment and with identified impairment (Basket 3), in which:		1,601,327	12.2	1,656,193	13.0
<i>wind farms</i>		13,553	0.1	124,874	1.0
<b>Total of receivables from clients - measured at amortized cost (gross)</b>		<b>13,132,205</b>	<b>100.0</b>	<b>12,743,274</b>	<b>100.0</b>
<b>Impairment loss write-offs for:</b>					
<i>receivables from clients - (Basket 1)</i>		-79,182		-59,012	
<i>receivables from clients - (Basket 2), in which:</i>		-124,948		-107,416	
<i>wind farms</i>		-32,837		-36,867	
<i>receivables from clients - (Basket 3) with no impairment identified, in which:</i>		-11,511		-23,346	
<i>wind farms</i>		-9,633		-21,378	
<i>receivables from customers - (Basket 3) with impairment identified, in which:</i>		-955,372		-853,659	
<i>wind farms</i>		-8,790		-31,876	
<b>Total impairment write-offs</b>		<b>-1,171,013</b>		<b>-1,043,433</b>	
<b>Total of receivables from clients measured at amortized cost (net)</b>		<b>11,961,192</b>	<b>91.1</b>	<b>11,699,841</b>	<b>91.8</b>
<b>Receivables from clients measured at fair value through financial result</b>					
Fair value, in which:		38,285		104,653	
<i>wind farms</i>		-		53,083	
<b>Total receivables from clients measured at fair value through financial result</b>		<b>38,285</b>		<b>104,653</b>	



Security deposits made	4,317	5,023
Other receivables	-	10
<b>Total receivables from clients</b>	<b>12,003,794</b>	<b>11,809,527</b>

### 1.2.2. Group equity and liabilities

	in PLN thousand	31-12-2019	31-12-2018	Change in %
Liabilities due to the Central Bank and to other banks		595,667	571,784	4.2
Derivative financial instruments held for trading		50,926	54,336	- 6.3
Derivative hedging instruments		16,869	18,298	- 7.8
Liabilities due to clients		14,914,981	14,799,109	0.8
Liabilities related to the issue of bank securities		-	46,590	- 100.0
Subordinated liabilities		370,731	370,672	0.0
Provisions		57,705	35,773	61.3
Income tax liabilities		9,795	4,972	91.8
Lease liabilities		83,349	-	x
Other liabilities		187,044	211,925	- 11.7
<b>Equity</b>		<b>2,199,930</b>	<b>2,137,566</b>	<b>2.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18,486,997</b>	<b>18,251,025</b>	<b>1.3</b>

At the end of year 2019, the highest share in the balance sheet total represented liabilities to clients at 80.7%. Their share decreased by 0.4 p.p. compared to the end of year 2018. On the other hand, the share of lease liabilities (implementation of IFRS 16) and equity increased by 0.5 p.p. and 0.2 p.p., respectively.

### Sources of funding of the Group operations

	in PLN thousand	31-12-2019	31-12-2018	Change in %
Individual clients		8,891,460	8,825,702	0.7
- current/settlement accounts		3,967,906	3,983,914	-0.4
- term deposits		4,923,554	4,841,788	1.7
Institutional clients		5,116,946	4,942,446	3.5
- current/settlement accounts		3,099,678	3,081,552	0.6
- term deposits		2,017,268	1,860,894	8.4
Other clients		63,607	92,448	-31.2
Credits and loans from international financial institutions		777,758	881,593	-11.8
Fund resources intended for lending		65,210	56,920	14.6
<b>TOTAL LIABILITIES DUE TO CUSTOMERS</b>		<b>14,914,981</b>	<b>14,799,109</b>	<b>0.8</b>

The main source of funding of BOŚ S.A. Group and the Bank's operations consists of amounts due to customers, including:

- deposits acquired by Bank's branches,
- credits and loans from international financial institutions,
- funds provided by external donors for lending activity in form of direct lines, interest rate subsidies or subsidies to the capital ("Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej", "Wojewódzkie Fundusze Ochrony Środowiska i Gospodarki Wodnej", "Europejski Fundusz Rozwoju Wsi Polskiej" and "JESSICA - Fundusz Rozwoju Obszarów Miejskich").

Liabilities of BOŚ S.A. Capital Group as at 31 December 2019 amounted to PLN 14,915.0 million and increased by 0.8% compared to the end of year 2018.

Liabilities to institutional clients increased by PLN 174.5 million, that is, by 3.5% compared to the end of year 2018. Liabilities to individual customers increased by 65.8 million, that is, 0.7%. On the other hand, liabilities arising from credits and loans received from International Financial Institutions have decreased.

## Geographic structure of sources of funding

The geographic structure of sources of funding in form of deposits acquired by branches (at nominal value) for main branches of the Bank has been presented in the table below.

	in PLN thousand	31-12-2019	31-12-2018	Change in %
branches in Warsaw, Headquarters, Private Banking Center, Sales and Customer Service Center, Debt Collection		5,327,299	5,188,632	2.7
Branch in Białystok		429,326	389,443	10.2
Branch in Bydgoszcz		861,215	868,257	-0.8
Branch in Częstochowa		760,715	731,633	4.0
Branch in Gdańsk		583,843	540,642	8.0
Branch in Katowice		837,205	877,948	-4.6
Branch in Koszalin		239,470	238,827	0.3
Branch in Krakow		1,487,549	1,492,004	-0.3
Branch in Lublin		831,971	849,924	-2.1
Branch in Łódź		414,247	368,371	12.5
Branch in Olsztyn		678,119	675,757	0.3
Branch in Ostrów Wlkp.		316,597	339,395	-6.7
Branch in Poznań		472,340	481,166	-1.8
Branch in Rzeszow		837,687	834,146	0.4
Branch in Szczecin		402,641	423,886	-5.0
Branch in Wrocław		851,426	910,715	-6.5

## Information about loans taken, loan contracts, surety and guarantee agreements not related to the Group's operations

In year 2019, BOŚ Group did not contract loans or loan contract, surety and guarantee agreements not related to the Bank's operations.

### 1.3. Group contingent assets and contingent liabilities

	in PLN thousand	31-12-2019	31-12-2018	Change in %
<b>Contingent liabilities:</b>		<b>2,846,868</b>	<b>1,806,671</b>	<b>57.6</b>
Financial, in which:		2,538,723	1,477,738	71.8
<i>open lines of credit, including:</i>		2,513,639	1,461,556	72.0
<i>revocable</i>		2,267,427	1,206,274	88.0
<i>irrevocable</i>		246,212	255,282	- 3.6
<i>open import letters of credit</i>		5,839	14,065	- 58.5
<i>commitments to grant loans of which:</i>		19,245	2,117	809.1
<i>irrevocable</i>		19,245	2,117	809.1
Guarantees, including:		308,145	328,933	- 6.3
<i>loan repayment sureties and guarantees</i>		12,909	14,833	- 13.0
<i>performance bonds</i>		295,236	-	x
<i>guarantee for a subsidiary</i>		-	314,100	x
<b>Contingent assets:</b>		<b>480,132</b>	<b>611,322</b>	<b>- 21.5</b>
Financial, in which:		85,170	193,500	- 56.0
<i>open lines of credit</i>		85,170	193,500	- 56.0
Guarantees		381,445	405,854	- 6.0
Other		13,517	11,968	12.9
<b>TOTAL CONTINGENT ASSETS AND CONTINGENT LIABILITIES</b>		<b>3,327,000</b>	<b>2,417,993</b>	<b>37.6</b>

Total contingent liabilities of the Group as at 31 December 2019 amounted to PLN 2,846.9 million, in which financial liabilities of the Group - to PLN 2,538.7 million. As at 31 December 2019, among total off-balance sheet commitments of the BOŚ S.A. Group, total guarantees amounted to PLN 308.1 thousand, of which:



- the highest guarantees were granted for amounts of PLN 46.1 million and 39.0 million,
- by value (61.3%), most guarantees were domestic performance bonds (32.2%) and domestic payment guarantees (29.1%).
- all guarantees were issued by the Bank to residents,

Ordering parties of guarantees were, as at 31 December 2019:

- 98.9% non-financial entities
- 0.7% government and local government institutions,
- 0.4% retail customers and financial entities.

In 2019, the Bank granted 136 guarantees and sureties in the total amount of PLN 114.6 million (analogical data for 2018: 142 guarantees and sureties for the amount of PLN 172.2 million). In 2019 guarantees and sureties were granted for the following terms (in terms of value):

- 44.6% from 1 month to 3 years,
- 31.1% for more than 5 years,
- 24.3% for 3 to 5 years.

## 2. FINANCIAL RESULTS OF THE BANK

### 2.1. Profit and loss account of the Bank

	in PLN thousand	2019	2018	Change in %
Interest income and similar revenues		628,490	627,059	0.2
Interest expense and similar expenses		-215,201	-251,283	- 14.4
<b>Net interest income</b>		<b>413,289</b>	<b>375,776</b>	<b>10.0</b>
Fee and commission revenue		74,176	75,573	- 1.8
Fee and commission expense		-12,583	-15,262	- 17.6
<b>Net fee and commission income</b>		<b>61,593</b>	<b>60,311</b>	<b>2.1</b>
Dividend income		6,277	5,932	5.8
Result on financial instruments assessed according to their fair value basing on the statement of profit or loss (including receivables from clients)		15,910	36,543	- 56.5
Result on investment securities		582	2,166	- 73.1
Result on hedge accounting		-42	1,313	- 103.2
Foreign exchange result		16,725	23,339	- 28.3
Other operating revenue		20,732	4,243	388.6
Other operating expenses		-33,688	-16,123	108.9
Result on loss of value for impairment		-100,773	-129,119	- 22.0
General administrative expenses		-285,871	-276,077	3.5
<b>Gross profit</b>		<b>114,734</b>	<b>88,304</b>	<b>29.9</b>
Tax expenses		- 34,072	-23,292	46.3
<b>NET PROFIT</b>		<b>80,662</b>	<b>65,012</b>	<b>24.1</b>

In 2019, BOŚ S.A. achieved a net profit in the amount of PLN 80.7 million, compared to PLN 65.0 million generated in year 2018.

BOŚ S.A. generated net interest income of PLN 413.3 million, that is, higher by PLN 37.5 million or 10.0% in comparison with year 2018.

	in PLN thousand	2019	2018	Change in %
<b>Interest revenues and similar revenues from:</b>		<b>628,490</b>	<b>627,059</b>	<b>0.2</b>
Receivables from banks and the Central Bank		3,616	4,117	- 12.2
Receivables from institutional clients		371,721	352,072	5.6
Receivables from individual customers		122,048	132,510	- 7.9
Debt investment securities not held for trading		131,105	137,992	- 5.0
Financial instruments held for trading		-	368	x

<b>Interest expense and similar charges from:</b>	<b>215,201</b>	<b>251,283</b>	<b>- 14.4</b>
Bank accounts and deposits from banks	1,023	1,328	- 23.0
Bank accounts and deposits of institutional clients	55,759	63,228	- 11.8
Bank accounts and deposits of individual customers	126,236	137,782	- 8.4
Bank loans and borrowings	-	320	x
Client loans and borrowings	818	1,129	- 27.5
Cash from funds designated for credits (JESSICA)	261	418	- 37.6
Financial instruments- issue of own debt securities	18,656	37,394	- 50.1
Hedge transactions	8,772	9,684	- 9.4
Lease liabilities	3,676	-	x
<b>NET INTEREST INCOME</b>	<b>413,289</b>	<b>375,776</b>	<b>10.0</b>

Interest revenues and similar revenues increased by PLN 1.4 million, that is, by 0.2% in 2019 in comparison with 2018, mainly due increase in interest revenues on receivables from institutional clients by PLN 19.6 million, that is, 5.6%, while interest revenues on receivables from individual customers decreased by PLN 10.5 million, that is, 7.9%. The average base lending rate for credits granted by the Bank increased in 2019 (without the impairment adjustment of interest). In PLN, it amounted to 5.00% in comparison with 4.74% in 2018, and in foreign currencies - 2.48% in comparison with 2.36% in 2018.

Interest revenues on debt investment securities not held for trading decreased by PLN 6.9 million, that is, 5.0%.

Interest expenses lowered by PLN 36.1 million i.e. by 14.4% in comparison with year 2018. This decrease was influenced mainly by lower costs of financial instruments - own debt securities by PLN 18.7 million, that is, by 50.1%. Costs of bank accounts and deposits of individual customers decreased by PLN 11.5 million, i.e., by 8.4%. Costs of bank accounts and deposits of institutional clients dropped by PLN 7.5 million, i.e., by 11.8%.

This reduction in interest expenses was caused mainly by reduction of interest rates. The average base interest rate for deposits obtained by the chain of Bank branches in 2019:

- in PLN amounted to 1.37% versus 1.48% in the first half of 2018,
- in other currencies amounted to 0.52% versus 0.58% in 2018.

The Bank's result for fees and commissions increased by PLN 1.3 million, that is, 2.1% in 2019 due to the pace of reduction of costs due to fees and commissions being higher (by 17.6%) in comparison with the pace of reduction of revenues (by 1.8%).

The Bank has achieved credit commission revenues higher by PLN 4.4 million, that is, 16.0%, and revenues from commissions on guarantees and letters of credits higher by PLN 0.4 million, that is, 7.9%. However, a decrease in client account management fees, other settlement transactions in domestic and foreign trade by PLN 6.2 million, that is, 14.4%, has resulted in overall decrease in total fee and commission revenue by PLN 1.4 million, that is, 1.8%.

	in PLN thousand	2019	2018	Change in %
<b>Fee and commission revenue</b>		<b>74,176</b>	<b>75,573</b>	<b>- 1.8</b>
Fees for maintaining customer accounts and other domestic and international settlement transactions		36,834	43,049	- 14.4
Commissions on loans		32,231	27,797	16.0
Commissions on guarantees and letters of credits		5,098	4,725	7.9
Other fees		13	2	550.0
<b>Fee and commission expense</b>		<b>12,583</b>	<b>15,262</b>	<b>- 17.6</b>
Payment card fees		7,656	7,456	2.7
Current account fees		1,039	2,198	- 52.7
Fees for services rendered via Euronet		1,134	1,225	- 7.4
Commissions for receivables from customers		617	858	- 28.1
Commissions paid to other banks for cash transactions		1	277	- 99.6
Other fees		2,136	3,248	- 34.2
<b>NET FEE AND COMMISSION INCOME</b>		<b>61,593</b>	<b>60,311</b>	<b>2.1</b>

Fee and commission expenses dropped by PLN 2.7 million, that is, 17.6% due to decrease in the current account fees by PLN 1.2 million, that is, 52.7% and commissions paid to other banks in cash trade - by PLN 0.3 million, that is, 99.6%.

Dividend revenues for year 2019 were influenced mainly by dividend from Kemipol Sp. z o.o. in the amount of PLN 5.4 million and Wodkan S.A. of PLN 0.8 million. In 2018, dividend paid by Kemipol Sp. z o.o. amounted to PLN 5.8 million, and dividend paid by Wodkan S.A. - PLN 0.1 million.

The result on financial instruments measured at fair value through profit or loss amounted to PLN 44.0 million, versus PLN 36.5 million in 2018. The main reason for this decrease was the lower net income for receivables from clients, compulsorily measured at fair value through profit or loss in 2019, which amounted to PLN 1.6 million, compared to PLN 16.8 million in 2018.

Net income of the Bank on investment securities in 2019 amounted to PLN 0.6 million, compared to PLN 2.2 million in 2018. Reduction of the total net income on investment securities was caused by lower income for sale of securities measured at fair value.

The foreign exchange result amounted to PLN 16.7 million and was lower by PLN 6.6 million, that is, by 28.3% in comparison with year 2018 due to the lower result on valuation operations.

Net income on other operations amounted to PLN (-13.0) million compared to PLN (-11.9) million in 2018. Other operating expenses were charged with write-offs in the amount of PLN 23.2 million for legal risks associated with denominated credits and loans. The write-offs were established in association with the ruling of the CJEU of 3 October 2019 in case C-260/18 Kamil Dziubak, Justyna Dziubak vs. Raiffeisen Bank International AG with a registered office in Vienna.

In 2019, the result on net loss of value for impairment amounted to PLN (-100.8) million, compared to PLN (-129.1) million in 2018. The improved result on impairment losses was influenced by lower write-offs for balance-sheet receivables in the segment of institutional clients - by PLN 34.1 million and in the segment of individual customers - by PLN 2.8 million, while write-offs for off-balance sheet liabilities were higher by PLN 12.8 million.

	in PLN thousand	2019	2018	Change in %
<b>Employee benefits</b>		120,514	120,828	- 0.3
<b>Administrative expenses, in which:</b>		<b>119,395</b>	<b>123,417</b>	<b>- 3.3</b>
- material costs		74,917	87,764	- 14.6
- taxes and charges		1,903	1,428	33.3
- contribution and payments to the BGF		39,874	32,331	23.3
- contribution and payments to the PFSA		2,595	1,798	44.3
- contribution to cover operating costs of the Financial Ombudsman		106	96	10.4
<b>Amortization/ depreciation, including:</b>		<b>45,962</b>	<b>31,832</b>	<b>44.4</b>
- fixed assets		7,125	8,326	- 14.4
- intangible assets		23,585	23,506	0.3
- beneficial use rights according to IFRS 16		15,252	-	x
<b>TOTAL GENERAL ADMINISTRATIVE EXPENSES</b>		<b>285,871</b>	<b>276,077</b>	<b>3.5</b>

General administrative expenses of the Bank increased by PLN 9.8 million, i.e. 3.5% comparing to year 2018, as a result of higher contributions to the BGF. The annual premium for the compulsory bank restructuring fund for year 2019 amounted to PLN 29.3 million. In 2018, the premium was equal to PLN 14.4 million. In total, contributions to the BGF charged to expenses in year 2019 amounted to PLN 39.9 million, compared to PLN 32.3 million in 2018.

Material costs in year 2019 in comparison with 2018 were lower by PLN 12.8 million, that is, 14.6%.

Personnel costs were lower by PLN 0.3 million, that is, 0.3% in relation to 2018, mainly due to optimization of employment. As at 31 December 2019, the Bank had 1,063 (full-time) employees, that is, 12.1% less in comparison with the end of year 2018.

Employment in full-time equivalents	31-12-2019	31-12-2018	Change in %
Employment in BOŚ S.A.	1,063	1,209	-12.1

### Efficiency and security of the Banks operations

Presented below are the key profitability and effectiveness ratios for the Bank and their calculation methodology;

	2019	2018	Change p.p.
Return on equity (ROE) <sup>1</sup>	3.8	3.4	0.4
Return on assets (ROA) <sup>2</sup>	0.4	0.3	0.1
Interest margin on total assets <sup>3</sup>	2.3	2.0	0.3
Cost of risk <sup>4</sup>	-0.8	-0.9	0.1
Cost/Income (C/I) <sup>5</sup>	57.2	57.9	-0.7

1) relation of net profit for four quarters to average shareholders' equity,

2) relation of net profit for four quarters to average assets,

3) relation of net interest income to average assets at the beginning and end of the period,

4) relation of the net impairment losses with measurement at fair value for the last 12 months to the average value of credits and loans during this period,

5) relation of the total of general administrative expenses and costs of use to net interest income, net fee and commission income, dividend income, financial instruments result measured at the fair value through the result account without valuation of receivables, result on investment securities, hedge accounting result, foreign exchange result and other operating income.

The interest margin on total assets, calculated as the ratio of net interest income to average opening and closing balance of assets amounted to 2.3%, compared to 2.0% for year 2018, mainly due to improvement of the structure of assets and reduction of liability costs of BOŚ S.A., as well as increased loan profitability.

The cost/income ratio for 2019 amounted to 57.2% compared to 57.9% for year 2018, mainly due to increase in income, despite increase in the contributions to the BGF by PLN 7.5 million that is, 23.3%.

The performance indicators excluding the impact on results of the Bank of charges related to legal risk associated with mortgage loans in foreign currencies and potential reimbursement of commission fees due to early repayment of retail credits, are as follows: ROE: 5.1%, ROA: 0.6%, C/I: 54.2%.

### Capital management

The levels of capitals, risk-weighted assets, capital ratios, leverage ratios and internal capital in the Bank are presented below:

	in PLN thousand	31-12-2019	31-12-2018
<b>Available capital</b>			
Tier I core capital		2,063,995	2,045,922
Tier I stated capital - without transitional provisions of IFRS 9		1,966,818	1,937,313
Tier I capital		2,063,995	2,045,922
Tier 1 capital - without transitional provisions of IFRS 9		1,966,818	1,937,313
Own funds		2,392,802	2,404,908
Own funds- without transitional provisions of IFRS 9		2,295,625	2,296,298
<b>Risk-weighted assets</b>			
Total amount of risk-weighted assets		14,433,553	13,341,379
- Credit risk and counterparty credit risk		13,501,448	12,470,305
- Operational risk		886,197	836,715
- Market risk		30,316	14,292
- CVA Risk		15,593	20,067
Total amount of risk-weighted assets - without transitional provisions of IFRS 9		14,350,159	13,228,648
<b>Capital ratios</b>			

Tier I stated capital ratio	14.30	15.34
Tier I capital ratio - without transitional provisions of IFRS 9	13.71	14.64
Tier I capital ratio	14.30	15.34
Tier I capital ratio - without transitional provisions of IFRS 9	13.71	14.64
Total capital ratio	16.58	18.03
Total capital ratio - without transitional provisions of IFRS 9	16.00	17.36
<b>Leverage ratio</b>		
The value of exposure	20,234,791	19,331,438
Leverage ratio	10.2	10.6
Leverage ratio - without transitional provisions of IFRS 9	9.8	10.1
<b>Internal capital</b>		
Internal capital	1,892 846	1,388 215

According to the CRR Resolution, and the Law of 5 August 2015 on macro-prudential oversight of the financial system and crisis management of the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. Since 1 January 2019, the buffer amounts to 2.5 p.p. The systemic risk buffer is at the level of 3 p.p. and the anti-cyclical buffer is 0 p.p. Bank Ochrony Środowiska S.A. is not required to have the buffer of another institution with systemic importance.

On 12 November 2019, the Polish Financial Supervision Authority recommended maintaining by the Bank of its own funds to cover additional capital requirements to hedge against the risk arising from foreign currency mortgage credits and loans for households at the level of 0.54 p.p. above the TCR ratio referred to in Article 92 (1) letter c) of the CRR Regulation, which should be composed of, at least, 75% of the Tier I capital (which corresponds to the capital requirement at the level of 0.40 p.p. above the value of Tier I capital which is referred to in Article 92 (1) letter b) of the CRR Regulation) and of at least 56% of the Tier I core capital (which corresponds to the capital requirement at the level of 0.30 p.p. above the value of Tier I core capital ratio referred to in Article 92 (1) letter a) of the CRR Regulation).

As a result, on 31 December 2019, the minimum capital ratio recommended by the Commission for the BOŚ Group, amount to: 11.90% for the Tier I capital ratio and 14.04% for the total capital ratio TCR.

The capital adequacy ratio of the Bank as at 31 December 2019 was above the levels recommended by the Polish Financial Supervision Authority, both with application of IFRS 9 transitional solutions and without them.

In the letter of the Bank Guarantee Fund ("BGF") of 28 October 2019, the Bank was informed of an update of the MREL level. The target MREL level, specified on the basis of unit data as at 31 December 2018, amounts to 18.33% of the total risk exposure amount (RWA) or 13.55% of the total of own funds and liabilities.

The Bank is obliged to fulfill the requirement of the minimum level of own funds and liabilities subject to redemption or conversion starting from 01 January 2023.

At the same time, the letter indicated a path for reaching of the target MREL level, according to which, as at 31 December 2019 the MREL level for the Bank is equal to the TCR ratio (total capital ratio).

In the letter of the Polish Financial Supervision Authority ("PFSA") of 24 December 2019, the Bank received information on assumptions of the dividend policy of commercial banks for year 2020. In the letter, the PFSA informed of the individual ST parameter for the bank, which measures sensitivity to unfavorable macro-economic scenarios. It is defined as the difference between the total capital ratio ("TCR") in the reference scenario and TCR in the shock scenario at the end of year 2021, taking into account supervisory adjustments.

The individual ST parameter for Bank Ochrony Środowiska S.A., taking into account supervisory adjustments, is 1.36%.

At the same time, implementing the Recovery Program, the Bank has failed to meet the basic criterion for payment of dividends for year 2019.

## 2.2. The balance sheet total of the Bank

The balance sheet total of BOŚ S.A. of as at 31 December 2019 amounted to PLN 18,329.4 million and increased by 1.4% compared to the end of year 2018.

### 2.2.1. Assets of the Bank

As at 31 December 2019, the highest share in the assets, amounting to 65.6%, represented receivables from clients. Their share in assets since the beginning of year 2019 increased by 0.1 p.p. The share of investment securities was reduced by 1.4 p.p. and receivables from other banks - by 0.1 p.p.

	in PLN thousand	31-12-2019	31-12-2018	Change in %
Cash and balances with the Central Bank		297,862	186,720	59.5
Receivables from other banks		148,918	170,494	- 12.7
Financial assets for trade, including:		100,513	68,773	46.2
Investment securities:		5,302,078	5,476,293	- 3.2
Receivables from clients		12,029,020	11,854,887	1.5
Investments in subsidiaries		113,897	77,590	46.8
Intangible assets		106,169	110,546	- 4.0
Tangible fixed assets		29,332	24,102	21.7
Beneficial use - lease		73,330	-	x
Income tax assets:		104,171	91,934	13.3
Other assets		24,107	20,704	16.4
<b>ASSETS TOTAL</b>		<b>18,329,397</b>	<b>18,082,043</b>	<b>1.4</b>

### Receivables from clients

Receivables from clients of the Bank at the end of year 2019 amounted to PLN 12,029.0 million compared to PLN 11,854.9 million at the end of year 2018, which constitutes an increase by 1.5%.

The highest share in total receivables, amounting to 70.1%, was recorded for receivables from institutional clients measured at amortized cost. Their share increased by 2.3 p.p. compared to the end of year 2018. Receivables from institutional clients amounted to PLN 8,435.1 million.

The share of receivables from individual customers measured at amortized cost in total receivables decreased by 1.7 p.p. to 29.5%. Loans of individual customers measured at amortized cost at the end of year 2019 amounted to PLN 3,551.4 million compared to PLN 3,705.5 million at the end of the previous year. The most significant item among these are mortgage loans of balance sheet value of PLN 2,888.7 million at the end of year 2019, compared to PLN 3,070.8 million at the end of the previous year. Information on mortgage loans has been provided in clause 1.2.1.

	in PLN thousand	31-12-2019	31-12-2018	Change in %
<b>Valuation at amortized cost</b>		<b>11,986,418</b>	<b>11,745,201</b>	<b>2.1</b>
<b>Receivables from individual customers</b>		<b>3,551,364</b>	<b>3,705,454</b>	<b>-4.2</b>
loans in current accounts		471	494	-4.7
cash loans		367,484	275,675	33.3
mortgage loans		2,888,692	3,070,781	-5.9
other credits and loans		294,717	358,504	-17.8
<b>Receivables from institutional clients</b>		<b>8,435,054</b>	<b>8,039,747</b>	<b>4.9</b>
working capital facilities		526,590	478,070	10.1
term credits and loans		7,330,136	6,804,620	7.7
factoring receivables		511,344	402,760	27.0
lease receivables		-	-	x
purchased receivables		66,984	111,585	-40.0
commercial securities		-	242,712	x
<b>Measurement at fair value through financial result</b>		<b>38,285</b>	<b>104,653</b>	<b>-63.4</b>
<b>Receivables from individual customers</b>		<b>1,938</b>	<b>3,101</b>	<b>-37.5</b>
housing credits and loans		648	904	-28.3
other credits and loans		1,290	2,197	-41.3
<b>Receivables from institutional clients</b>		<b>36,347</b>	<b>101,552</b>	<b>-64.2</b>
working capital facilities		195	181	7.7
term credits and loans		36,152	101,371	-64.3
<b>Total</b>		<b>12,024,703</b>	<b>11,849,854</b>	<b>1.5</b>
Security deposits made		4,317	5,023	-14.1
Other receivables		-	10	x
<b>Total receivables from clients</b>		<b>12,029,020</b>	<b>11,854,887</b>	<b>1.5</b>

## Credits and loans granted during the reporting period

Information on sales of credits and loans has been provided in clause 1.2.1.

## Quality of the Bank's loan portfolio

At the end of 2019, the Bank's impairment allowances on credits and loans amounted to PLN 1,163.5 million. The relation of impairment allowances to credits and loans granted to clients and banks (gross), measured at the amortized cost and at fair value through profit or loss, as at 31 December 2019, amounted to 8.8%.

The share of gross credits and loans with impairment in the portfolio measured at amortized cost and in the entire portfolio was 12.0% as at 31 December 2019, compared to 12.8% at the end of 2018.



	in PLN thousand	31-12-2019	%	31-12-2018	%
<b>Receivables from clients measured at amortized cost</b>					
Receivables from clients without impairment indicator, including:		11,152,839	84.8	10,356,797	81.0
<i>exposures without significant credit risk increase from the moment of initial recognition (Basket 1)</i>		8,705,917	66.2	8,327,329	65.1
<i>Basket 2 - exposures with significant increase of credit risk from the moment of initial recognition, in which:</i>		2,446,922	18.6	2,029,468	15.9
<i>wind farms</i>		1,292,781	9.8	1,041,435	8.1
Receivables from customers with impairment indicator (basket 3) but with no impairment identified, in connection with estimated cash flows, in which:		425,446	3.2	796,506	6.2
<i>wind farms</i>		275,468	2.1	627,534	4.9
Receivables from clients having evidence of impairment and with identified impairment (Basket 3), in which:		1,571,648	12.0	1,631,846	12.8
<i>wind farms</i>		13,553	0.1	124,874	1.0
<b>Total of receivables from clients - measured at amortized cost (gross)</b>		<b>13,149,933</b>	<b>100.0</b>	<b>12,785,149</b>	<b>100.0</b>
<b>Impairment loss write-offs for:</b>					
<i>receivables from clients - (Basket 1)</i>		-80,025		- 59,897	
<i>receivables from clients - (Basket 2), in which:</i>		-125,160		- 107,698	
<i>wind farms</i>		-32,837		- 36,867	
<i>receivables from clients - (Basket 3) with no impairment identified, in which:</i>		-12,373		- 24,183	
<i>wind farms</i>		-10,495		- 22,215	
<i>receivables from clients - (Basket 3) with impairment identified, in which:</i>		-945,957		- 848,170	
<i>wind farms</i>		-8,790		- 31,876	
<b>Total impairment write-offs</b>		<b>-1,163,515</b>		<b>- 1,039,948</b>	
<b>Total of receivables from clients measured at amortized cost (net)</b>		<b>11,986,418</b>	<b>91.2</b>	<b>11,745,201</b>	<b>91.9</b>
<b>Receivables from clients measured at fair value through financial result</b>					
Fair value, in which:		38,285		104,653	
<i>wind farms</i>		-		53,083	
<b>Total receivables from clients measured at fair value through financial result</b>		<b>38,285</b>		<b>104,653</b>	
Security deposits made		4,317		5,023	
Other receivables		-		10	
<b>Total of receivables from clients</b>		<b>12,029,020</b>		<b>11,854,887</b>	

## 2.2.2 Equity and liabilities of the Bank

At the end of year 2019, the highest share in the balance sheet total represented liabilities to clients at 81.2%. Their share decreased by 0.7 p.p. compared to the end of year 2018. On the other hand, the share of lease liabilities and equity increased by 0.4 p.p. and 0.2 p.p., respectively.



	in PLN thousand	31-12-2019	31-12-2018	Change in %
Liabilities due to the Central Bank and to other banks		595,667	571,784	4.2
Financial derivative financial instruments held for trading		48,741	53,444	- 8.8
Derivative hedging instruments		16,869	18,298	- 7.8
Liabilities due to clients		14,886,720	14,809,321	0.5
Liabilities related to the issue of bank securities		-	46,590	x
Subordinated liabilities		370,731	370,672	0.0
Provisions		57,872	35,201	64.4
Income tax liabilities		8,128	4,497	80.7
Lease liabilities		76,595	-	x
Other liabilities		117,547	96,230	22.2
Equity		<b>2,147,038</b>	2,076,006	3.4
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18,329,397</b>	<b>18,082,043</b>	<b>1.4</b>

## Sources of funding of the Bank's operations

	in PLN thousand	31-12-2019	31-12-2018	Change in %
Individual clients		8,377,446	8,351,083	0.3
- current/settlement accounts		3,453,892	3,509,295	-1.6
- term deposits		4,923,554	4,841,788	1.7
Institutional clients		5,601,652	5,427,277	3.2
- current/settlement accounts		3,572,203	3,539,136	0.9
- term deposits		2,029,449	1,888,141	7.5
Other clients		64,654	92,448	-30.1
Credits and loans from international financial institutions		777,758	881,593	-11.8
Fund resources intended for lending		65,210	56,920	14.6
<b>TOTAL LIABILITIES DUE TO CLIENTS</b>		<b>14,886,720</b>	<b>14,809,321</b>	<b>0.5</b>

Liabilities of BOŚ S.A. to clients as at 31 December 2019 amounted to PLN 14,886.7 million and increased by 0.5% compared to the end of year 2018. Liabilities to institutional clients increased by PLN 174.4 million, that is, by 3.2% compared to the end of year 2018. Liabilities to individual customers increased by 26.4 million, that is, 0.3%. On the other hand, liabilities arising from credits and loans received from International Financial Institutions have decreased by PLN 103.8 million, i.e. 11.8%.

## 2.3. Contingent assets and contingent liabilities of the Bank

	in PLN thousand	31-12-2019	31-12-2018	Change in %
<b>Contingent liabilities:</b>		<b>2,931,173</b>	<b>1,857,718</b>	<b>57.8</b>
Financial, in which:		2,623,028	1,524,835	72.0
<i>open lines of credit</i>		2,597,944	1,508,653	72.2
<i>open import letters of credit</i>		5,839	14,065	- 58.5
<i>commitments to grant loans</i>		19,245	2,117	809.1
Guarantees, including:		308,145	332,883	- 7.4
<i>loan repayment sureties and guarantees</i>		12,909	14,833	- 13.0
<i>performance bonds</i>		295,236	314,100	- 6.0
<i>guarantee for a subsidiary</i>		-	3,950	x
<b>Contingent assets:</b>		<b>466,615</b>	<b>599,354</b>	<b>- 22.1</b>
Financial		85,170	193,500	- 56.0
Guarantees		381,445	405,854	- 6.0
<b>TOTAL CONTINGENT ASSETS AND CONTINGENT LIABILITIES</b>		<b>3,397,788</b>	<b>2,457,072</b>	<b>38.3</b>

Total contingent liabilities of the Bank as at 31 December 2019 amounted to PLN 2,931.2 million, in which financial liabilities of the Bank - to PLN 2,623.0 million. As at 31 December 2019, among total off-balance sheet commitments of the Bank, total guarantees amounted to PLN 308.1 (more information can be found in clause 1.3.)

### **3. DIFFERENCE BETWEEN FINANCIAL FORECASTS AND ACTUAL PERFORMANCE**

BOŚ S.A. Capital Group has not published any financial forecasts.

### **4. DEVELOPMENT STRATEGY OF THE GROUP**

The Bank has consistently implemented the Development Strategy of BOŚ S.A. Achievement of the primary strategic objectives is to take place by following three defined strategic directions, based on the existing and developed competitive advantages of the Bank:

#### **Direction 1**

Increase in funding of pro-ecological investments and synergies in cooperation with Partners - where the assumptions of the vision for development include the following:

- BOŚ Bank has the best specialist products, available on the market, in the area of financing of undertakings that contribute to environmental protection, offered from own funds, funds provided by the NFEPWM/ VFEPWM, foreign banks, government programmes, including those based on the Strategy for Responsible Development.
- The portfolio of pro-ecological products and services is complex and aimed at both institutional clients and individual customers.
- The key competitive advantage consists of the market-leading processes for management of domestic and foreign programmes for financing of pro-ecological investments.
- The Bank is distinguished by quality of service and innovative approach to its environment-friendly mission, as well as the best experts in environmental engineering.

#### **Direction 2**

Increase in effectiveness of business activity - in which the vision for development includes the following assumptions:

- BOŚ Bank is a professional partner, understanding and satisfying the specific needs of selected segments of Corporate Clients.
- The obtained competitive advantage is based on delivery of high-quality complex products for Institutional Clients, in particular, the SMEs.
- A competitive offer for Individual Customers, interested in profitable investment of their money surplus.
- The modern distribution channels meet the expectations of the target Client segments and market standards.
- Fast, relationship-based and friendly sales and after-sales processes enhance satisfaction and loyalty of the Bank's Clients.

#### **Direction 3**

Building of a culture of high results and quality, based on the value of the Bank - in which the development vision includes the following:

- The corporate culture of BOŚ Bank is focused on customers, as well as quality and performance. It is made by the Employees, distinguishing themselves by strong commitment and environment-friendly, pro-social approach.
- The effective internal communication system makes it easier to get Employees involved in activity of the Bank, making them the ambassadors of the ideas promoted.
- The Bank is also distinguished by high level of cost effectiveness, adequate to its business activity.
- BOŚ Bank is a reputable brand of an employer offering some of the best workplaces in the sector for Employees who share the Bank's system of values.

#### **Information on activities implemented within the framework of the Strategy**

In 2019, the Development Strategy of the Bank was implemented in the framework of 10 Strategic Plans in accordance with the environmental mission adopted by the Bank. Strategic projects were implemented

in the area of strengthening of the role of electronic distribution channels and adaptation of traditional distribution channels to the present market challenges and expectations of the target segments of Clients,

including implementation of the new online banking system (including adaptation of systems of the Bank to the PSD2 Directive requirements). To enhance the sales support, a modern, functional, high-tech Web page of the Bank has been implemented. In the course of the year, works were conducted to improve the following processes: cash management in the Bank and the process to support interactions with customers (CRM). In accordance with the strategic directions defined, the Bank took certain steps in association with the concept of customer focus, in particular, by gathering and using opinions of customers to implement the customer-friendly culture of works and tools to enhance the experience of Customers in their relationships with the Bank. A number of initiatives were also taken to broaden the knowledge on environmental protection and to promote environment-friendly attitudes of employees and Clients of the Bank, as well as the local communities. At the end of year 2019, works aimed at implementation of new mobile banking were also nearing completion.

### Perspectives for development of activity of the Bank

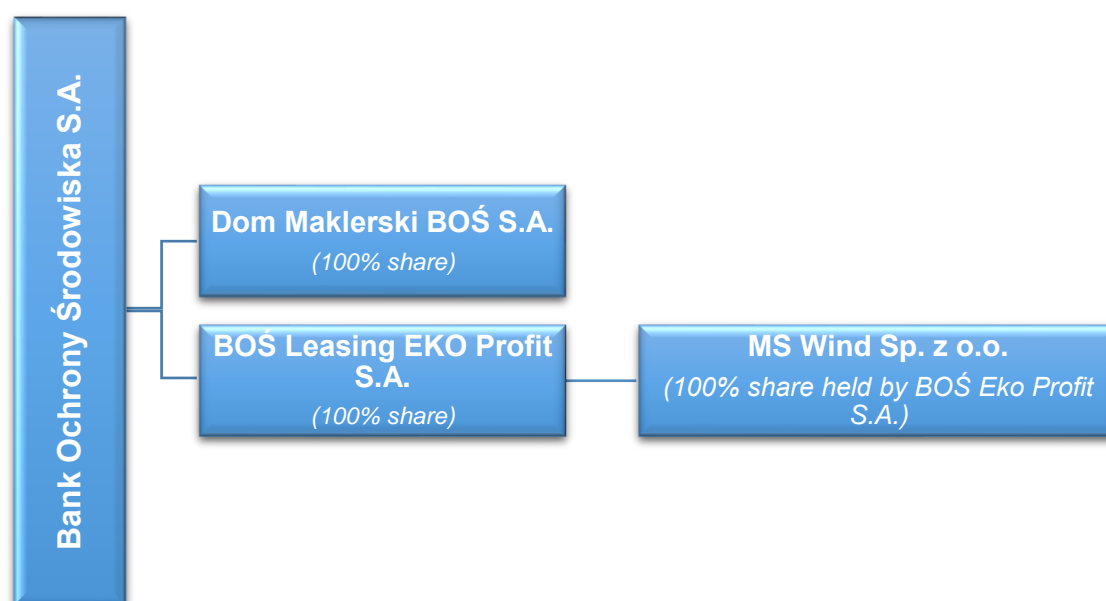
In the short-term perspective, the Bank will, on the one hand, undertake a number of initiatives related to increase in the level of funding of pro-ecological investments, and on the other - to enhance its business performance. These initiatives will focus mainly on development of the pro-ecological offer and transformation of retail customer services towards modern distribution channels.

The pro-ecological investment market is still being stimulated by available support for investment projects due to spending of EU funds from the financial perspective for years 2014-2020. Additional support mechanisms, e.g. for renewable energy sources and cogeneration, set the direction for environment-friendly investments for entrepreneurs. At the same time, growing environmental awareness of the Poles and popularity of the healthy lifestyle create a space for community building around ECO values.

## 5. CAPITAL GROUP ORGANISATION

### Capital group structure

In 2019, the Capital Group of Bank Ochrony Środowiska S.A. consisted of the following entities:



### The nature of operations conducted by the BOŚ S.A. subsidiaries:

- Dom Maklerski BOŚ S.A. - - brokerage services, operations on a capital market;
- BOŚ Leasing - EKO- Profit S.A. - - leasing activity and financial & advisory services, complementary to the Bank's offer;
- MS Wind sp. z o. o. - - implementation of a wind farm project

All of the entities listed above are subject to full consolidation.

## Capital Investments

In year 2019:

- on 5 February 2019, the Management Board of the Bank passed a resolution on acquisition of shares of Polskie Domy Drewniane S.A. The Company was established by notarial deed on 5 March 2019 by the Bank and the National Fund for Environmental Protection and Water Management. The Bank will acquire 1% of shares in the share capital of the Company, that is, 500 registered shares of nominal value of PLN 1000 each - in total, PLN 500 thousand. The Company was entered in the National Court Register on 4 September 2019, and
- on 21 March 2019, the Management Board of BOŚ Leasing EKO Profit S.A. requested the Bank as the sole shareholder for a capital contribution in the amount of PLN 25 million by increasing the share capital of the Company. On 29 March 2019, an Extraordinary General Meeting of the Company was held, which passed the resolution to increase the share capital of the Company through issue of new shares and their acquisition on the basis of a closed subscription addressed to the Bank as the sole shareholder. The Bank made a payment for the shares. On 6 August 2019, the Court entered the capital increase in the National Court Register. The funds were allocated to development of leasing activity.

## 6. THE MAIN PRODUCTS, SERVICES AND BUSINESS AREAS

### 6.1. Banking products and share in the banking sector

The Bank's offer includes products (deposits, loans and settlements) offered to all groups of clients, as well as products addressed directly to selected groups of clients of BOŚ S.A.

The terms and conditions of cooperation with separate groups of clients are tailored by the Bank to the changing market conditions and the needs of addressees of the Bank's offer with a simultaneous focus on the target in the form of continuous improvement of client service efficiency.

The share of BOŚ S.A. in the commercial banking sector as at the end of the I half of 2019 (based on data published by Polish Financial Supervision Authority relating to the banking sector with foreign branches) was equal to:

- 0.9% in total assets compared to 1.0% as at the end of 2018,
- 1.2% in deposits compared to 1.3% as at the end of 2018,
- 0.9% in loans and advances compared to 0.9% as at the end of 2018.

### 6.2. Number of serviced clients, accounts, payment cards and branches

	31-12-2019	31-12-2018	Change in %
<b>BANK OCHRONY ŚRODOWISKA S.A.</b>			
Number of customers	242.0	247.2	-2.1
Number of individual customers <sup>1</sup>	220.0	226.9	-3.0
Number of institutional clients <sup>2</sup>	22.0	20.3	8.4
Number of customers using electronic channels	124.1	125.3	-1.0
Number of savings and current accounts <sup>2</sup>	241.8	249.8	-3.2
Debit and credit cards in total	86.2	92.3	-6.6
Number of branches (in pcs)	53	57	-7.0
<b>DOM MAKLECKI BOŚ S.A.</b>			
Number of investment accounts	104.6	101.1	3.5
including Internet accounts	101.2	96.7	4.7
Number of branches (in pcs)	11	13	-15.4

1) due to a change in classification of clients, data for year 2018 has been made comparable

2) together with the savings accounts

At the end of 2019, the operating activity was conducted in total by 53 branches. Their number in 2019 was reduced by 4. The Bank also renders services via the Web-based platform [www.bosbank.pl](http://www.bosbank.pl).

Dom Maklerski BOŚ S.A. had 11 branches as at 31 December 2019, and the number of these decreased by 2. Dom Maklerski BOŚ S.A. also renders services via the Web-based platform [www.bossa.pl](http://www.bossa.pl).

### 6.3. Banking activity

#### Segment structure of pro-ecological loans (by capital value)

The Bank keeps increasing the share of sales of loans for pro-ecological investments. The value of pro-ecological loans in 2019 amounted to PLN 1,913.9 million, that is, was higher by 121.3% in comparison with the previous year. A great majority of these new pro ecological loans were addressed to corporate clients.

#### Segment structure of pro-ecological loans (by capital value)

	in PLN thousand	31-12-2019	31-12-2018	Change in %
Pro-ecological loans granted to institutional clients		4,144 327	4,238,425	-2.22
Pro-ecological loans granted to individual customers		304,260	177,980	70.95
<b>PRO-ECOLOGICAL LOANS</b>		<b>4,448 587</b>	<b>4,416,405</b>	<b>0.73</b>

BOŚ S.A. developed its operations on the market of funding of pro-ecological projects. The balance of pro-ecological loans as at 31 December 2019 amounted to PLN 4,448.6 million. The share of loans granted for activities supporting environmental protection and sustainable development accounts for 34.45% in the Bank's total loan portfolio (34,85% as the end of year 2018.)

#### Development of cooperation with the National and Voivodship Funds for Environmental Protection and Water Management

In 2019, cooperation with the Bank's major shareholder - the NFEPWM - was focused on operational management of priority programmes implemented at the Bank in the previous years, mainly the Prosumpt II programme, and on acquisition of new clients for financing of pro-ecological projects, which have applied for or obtained direct support of the NFEPWM as a part of EU or domestic assistance programmes. In the case of institutional clients, activity was focused mainly on enterprises engaged in investments financed by the NFEPWM in the framework of the Operational Programme Infrastructure and Environment 2014-2020, as well as domestic programmes, including the pilot programme "Ciepłownictwo Powiatowe" (District Heating Systems). Another significant direction of financing consists of projects that fit into the framework of the NFEPWM programmes: "Energia Plus" (Energy Plus) and "Samowystarczalność Energetyczna" (Energy Self-Sufficiency), the latter to be launched soon.

With regard to natural persons, the Bank actively participates in consultations aimed at involving the banking sector in implementation of the NFEPWM programme "Czyste Powietrze" ("Clean Air"), which is aimed at improving the quality of life and health of inhabitants of Poland through liquidation of air pollution. Even today, the Bank's offer includes the Transparent Loan, which provides preferential terms for financing of non-eligible costs of undertakings within the framework of this programme or bridge financing, until the investor obtains a subsidy. Examples of such activities include agreements signed in on 22 October 2019 by BOŚ S.A. with the City of Nowy Sącz and on 3 December 2019 with the City and Commune of Skala. The main objective is to support the inhabitants of małopolskie voivodship in replacement of their heating systems with environment-friendly ones, implementation of thermal upgrading projects and other initiatives that are complementary to the governmental "Clean Air" programme.

As a part of its cooperation with the Voivodship Funds for Environmental Protection, the Bank has provided funding for pro-ecological undertakings, mainly concerning protection of air against pollution, that is, renewable energy sources, thermal upgrading of buildings and replacement of heat sources with ecological ones.

The BOŚ Capital Group is also a natural partner to entrepreneurs developing their activity in the area of environmental protection. In order to develop partnership-based products, in which the Bank would provide financing for pro-ecological undertakings, BOŚ S.A. has engaged in negotiations with such entities as PGNiG, TAURON, ENEA, ENERGA, PGE. The main areas of focus pertain to replacement of heating sources, RES installations (particularly PV) or replacement of lighting systems.

## Segment of institutional clients

The Bank has developed a comprehensive offer of settlement, deposit and loan products, which can serve as a basis for creation of individual offers tailored to the individual client needs. Regarding its settlement product offer, the Bank offers standard current accounts which fulfill settlement functions and serve to accumulate cash and to conduct domestic and foreign settlement operations.

Accounts for Clients of the corporate segment and SMEs can be maintained in the following currencies: PLN, USD, EUR, GBP, CHF, SEK, HUF, RUB, CZK, NOK and DKK. The Bank offers settlement service packages in the module formula. The offer includes two variants of Unique Business Accounts (Konta Wyjątkowe Biznes) customized to the Client's transaction profile and enriched with the following modules: the settlement module and the FX module available, depending on the Client's business profile.

Accounts for Clients of the segment of micro-enterprises can be maintained in the following currencies: PLN, USD, EUR, GBP, CHF, SEK. The Bank provides additional settlement services as a part of its offer. Micro-enterprises are provided with Flexible Accounts, and housing communities with Community Accounts, taking into account the seasonal nature of their business activity or adapted to the Client's transaction level.

In 2019, in the area of settlement products:

- the Bank implemented the process of acquisition and transfer to advisors of data of Clients interested in establishing cooperation with BOŚ,
- solutions were developed to adapt the Bank to provisions of 10 May 2018 on amendment of the act on payment services and some other legal acts (hereinafter referred to as 'the Act'), implementing the requirements of Directive PSD2,
- a solution was implemented to adapt the Bank's activity to provisions of the amended General Tax Law Act with regard to transferring of data of Institutional Clients, their accounts and transactions to the Telecommunication System of the Clearing House,
- works were conducted to adapt the Bank to Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges, including amendment of the Fees & commissions schedule with regard to settlement products

In 2019, in the area of electronic banking:

- the Strong Customer Authentication (SCA) tool was implemented in the electronic banking system iBOSS24. Two authentication methods are available: the BOŚToken mobile application and the electronic signature. The above is in line with requirements of the act on payment services (directive PSD2), and at the same time, the functions implemented improve security of transactions and ergonomics of the system;
- changes have been made to the electronic banking system in handling of transfers to the Revenue Office as a part of the "Witraz" project. PIT, CIT and VAT tax transfers can be made to individual bank accounts (micro-accounts) generated on the basis of the PESEL identification number (for natural persons) or tax identification number NIP (for companies);
- requirements of the amended tax on VAT have been implemented, as a result of which the funds in the so-called VAT account are used for transferring social insurance premiums, CIT, PIT, VAT tax, excise tax and duties.
- adapting to the requirements of the act on payment services (directive PSD2), the Open Banking API platform has been implemented.

With respect to loan products in 2019:

- The Bank continued actions aimed at optimizing and automating of the loan granting process at different stages, as follows: client acquisition, assessment of credit application, credit decision-making, disbursement of the loan funds or credit monitoring and loan administration. The project includes, among others, implementation of a tool supporting the assessment process and development of rating systems allowing for the specificity of pro-ecological products;
- The Bank has commenced the process of providing more attractive terms for loan products for micro-enterprises:



- as for financing of current (working capital) needs, changes have been introduced to enhance availability and attractiveness of the “Kredyt dla Firm” (“Loan for Companies”) for self-employed persons, in particular by: increasing the loan amount to PLN 500 thousand, modifying the collateral requirements (COSME guarantee has been introduced as a collateral), limiting the number of documents required and introducing a special promotional offer with lower interest rates;
- as regards investment products, a “Purchase loan for companies” has been introduced, allowing (self-employed) clients to finance purchase of machines and equipment, including vehicles for business purposes; if the investment is pro-ecological, the term of the loan is extended to 15 years and the price is reduced; the product is also subject to a collateral in form of the COSME guarantee.

At the same time, the process of granting loans for micro-enterprises has been modified for the purpose of its optimization.

In 2019, the Bank introduced the promotional offer “Community with a bonus”, which is based on promotional prices for Clients applying for investment loans and loans with a thermal upgrade or renovation bonus from resources provided by the Fund for Thermal Upgrades and Renovations in cooperation with BGK.

As for products for institutional clients: the investment loan parameters have been modified by lowering the amount of the required contribution for projects aimed at production of electricity from renewable sources, sold to the grid on the basis of actions organized and conducted by the Chairman of the Polish Energy Regulatory Office or FIT/FIP (the price of electricity in form of feed-in tariffs for small and micro-biogas and water installations of capacity lower than 500 kW or the right to coverage of negative balance in form of premium tariffs for medium-sized biogas and water installations of capacity between 500 kW and 1 MW)

- subsidized by the EU, and the repayment term for loans paid from savings has been extended,
- works have been commenced to enhance attractiveness of products offered to institutional clients by:
  - modifying the multi-purpose line of credit to provide it with a de minimis guarantee,
  - introduction of a purchase loan for SMEs, in which the funds can be used for ecological purposes,
  - modification of the process of financing of photo voltaic farms up to 1MW with support in the auction system.

### Local government units

The Bank cooperates with local government units. It offers complex banking services, handling their budgets to enable effective management of funds. Services on behalf of local government units are rendered on the basis of the Public Procurement Law Act.

Public finance segment clients are offered all standard deposit and loan products included in the Bank's offer. Products intended to finance pro-ecological projects (preference and commercial loans) hold a special place in the offer, as well as loan facilities offered by foreign banks to fund environmental protection and infrastructural investments and the European Offer being a package of products directed to entrepreneurs, local governments and municipal companies.

### Segment of individual clients

The segment of individual clients of the Bank includes mainly natural persons.

BOŚ S.A. has a comprehensive offer for its retail customers, being its largest clients group. The offer includes all basic products and services available on the Polish banking market (bank accounts, settlement products, debit cards, products and services to allocate cash surplus, electronic banking and loans products) and a wide range of pro-ecological products for financing of environment-friendly solutions, as well as VIP services provided by specialized Advisers.

In 2019, the card offer was extended by introducing a product dedicated to Clients using automatic cyclical payments, that is, subscriptions, installments or payments for utilities (the Mastercard Automatic Billing Updater). The transaction authorization method without physical use of a card (3D Secure) has been introduced, as well as the Cash back service, enabling customers to withdraw cash while shopping for

debit cards. At present, works are in progress to implement this service for credit cards as well. Works have been in progress on launching of the new transaction monitoring system (PRM), allowing for real time verification of authorization and setting of additional authorization alerts.

Migration of all payment cards in the Bank to the new Settlement Center and a new supplier of plastic cards has been completed. The process was aimed at facilitating introduction of new services for Clients of all segments. The PRM parameterization has been completed, allowing the Bank to use real-time monitoring of all card authorizations. Implementation of the 3DS service for all cards has enhanced the sense of security of Clients using online transactions. Additionally, an additional security mechanism has been introduced for contactless transactions - the so-called strong customer authentication by using PIN for every 6th contactless transaction for the amount up to 50 PLN.

Implementation of a new card system has also been commenced; in combination with new supplier, it will enable introduction of new card functionalities.

The Bank has developed its offer of open investment funds, aiming to diversify solutions accessible to customers, tailored to their investment needs and an investment risk profile, acceptable for the Client. 300 open investment funds were offered to the Bank's Clients. The Bank also pursued its business goal with respect

to greater productization of clients and increased income from retail sales, in particular in the VIP sub-segment.

### **Liabilities due to individual customers**

Actions undertaken by the Bank in 2019 with regard to deposit products for individual customers were focused on:

- building long-lasting relationships with customers, promoting those using actively savings and settlement accounts (ROR) as the basis for the Customer - Bank relationship,
- taking care of deposit portfolio cost optimization and current adjusting to the changing market conditions,
- maintaining the deposit balance in line with the liquidity requirements of the Bank.

In terms of balance building, the key deposit products for retail customers included:

- current accounts, including personal accounts with the basic account: "EKOkonto bez Kosztów" and savings accounts with the new "EKOkonto Oszczędnościowe" in PLN,
- promotional deposits: "e-lokata na Plusie", "EKOllokata Na Dobry Początek", "EKOllokata Zyskowna", "EKOllokata Rentowna", "EKOllokata Plus," "EKOllokata na Lata", "EKOllokata 5 na 5",
- foreign currency term deposits: "EKOllokata z Frankiem" in CHF.

The Bank's activity in the area of accounts:

- savings and settlement accounts - focused on maintaining a transparent offer by keeping the following savings and settlement accounts' products in the Bank's offer: "EKOkonto bez Kosztów", "EKOkonto VIP", "EKOkonto PRP" and "EKOkonto oszczędnościowe" in three variants adapted to the Client needs and encouraging Clients to actively use savings and settlement account (ROR) and systematically save even small amounts of money on the savings account. "EKOkonto oszczędnościowe" exists in the following currencies: PLN, EUR and CHF. In 2019, the Bank has continued to promote accounts for clients receiving benefits from the "Rodzina 500+" program.
- works were conducted to adapt the Bank to Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges, including the Fees & commissions schedule with regard to settlement accounts and products.

### **Bancassurance products**

The Bank constantly develops its bancassurance segment. In 2019, it offered financed asset insurance for clients of BOŚ S.A., life insurance for borrowers, unemployment insurance and insurance packages for payment cards.

BOŚ S.A. acts as an agent of insurance companies.

### **Credit products - Individual customers**

The key credit products for individual clients included:

- pro-ecological loans,
- cash loans,
- credit cards,
- ecological mortgage loans,



- stock exchange loans.

The Bank supports pro-ecological solutions e.g. by granting mortgage loans for construction of prefabricated timber frame houses.

In February 2019, a promotional mortgage loan has been introduced, dedicated to customers participating in the Housing Trade Fair in year 2019. The aim of the promotion was to acquire new customers and to support the Bank's Advisers in achievement of their sales goals.

In June 2019, an ecological mortgage loan known as EKO Dom+ was introduced. The promotion was a part of the social campaign DOM BEZ RACHUNKÓW, in which our Bank participates.

The aim of the campaign "Dom bez rachunków" is to promote construction of single-family houses following a high energy-efficiency standard, equipped with heat pumps, photo voltaic cells and recuperation. Dynamic development of photo voltaic systems and heat pumps makes it now possible to design and construct buildings that meet all expectations of their future inhabitants with regard to comfort, economy and ecology.

In May 2019, very attractive promotions of credit products were introduced to finance pro-consumer photo voltaic installations for households: „Energia ze Słońca” and „Pożyczka na Fotowoltaikę”.

The Bank has also consistently pursued other initiatives to support the governmental Clean Air Programme. On 5 June 2019, a contract was signed with PGNiG Obrót Detaliczny for cooperation in promotion of products and services supporting e.g. replacement of heating systems and implementation of thermal upgrade projects. Customers of PGNiG Obrót Detaliczny can take advantage of BOŚ Bank's dedicated loan "Pełnym oddechem".

In 2019, the following product-aimed activities were undertaken with regard to cash loans:

- to support the sales of Eco-Loans through seasonal promotions, which were characterized by simple structure and attractive prices:
  - „Pożyczka rozkwitająca”,
  - „Letni Luz”
  - „Pożyczka Jesienna”
  - „Pożyczka Gwiazdka z nieba” –supported by a marketing campaign
- to support and promote the "Przejrzysta pożyczka" loan, thanks to which our Customers can make a contribution to cleaner air through thermal upgrade works and replacement of their heating equipment with more ecological solutions.
- In March 2019, the maximum available cash loan amount was increased, making the product much more attractive and competitive on the market.
- The Bank's activity was also aimed at its long-term customers. Systematic phone call actions and a pre-calculated sales action - "Pożyczka Atrakcyjna". These activities contribute to achievement of the expected financial result and building of long-term Bank-Customer relationships.

In the area of electronic banking for individual customers:

- a new electronic banking system BOŚBank24 has been implemented.
- Benefits of implementation of the new electronic banking system will exert positive impact on the Bank's result, in particular thanks to;
  - development of sales in alternative channels and improvement of the impact range of the sales network, offering of products and services in electronic channels,
  - better productization and development of the customer database,
  - increase in sales via electronic channels and support for implementation of the planned financial result of the Bank,
  - achievement of the market standard while ensuring successive business development in electronic channels,
  - preventing outflow of Customers to other institutions having market solutions in the area of electronic banking functionality,
  - possibility of development of BE depending on the financial capabilities and business needs of the Bank - there is a possibility of development of electronic banking in stages,
  - development of a technological base, allowing for development of the system through independent implementation of own business concepts and adapting to the changing regulatory requirements, including PSD2/ open banking.

- Strong Customer Authentication has been implemented in the electronic banking system BOŚBank24. Two authentication methods are available:
  - logging into the system using the Identifier + masked fixed password + additional text message code to confirm login and transaction authorization using a text message code, or
  - login and transaction authorization using the BOŚtoken mobile application.The above is in line with requirements of the act on payment services (directive PSD2) and at the same time, the functions implemented improve security of transactions and ergonomics of the system;
- adapting to the requirements of the act on payment services (directive PSD2), the Open Banking API platform has been implemented.

### Introduction of the new Web page of the Bank

The new Web page of the Bank [www.bosbank.pl](http://www.bosbank.pl) has been made accessible (internal access since December 2019, for customers - since 9 January 2020).

Benefits from implementation of the new Web page and characteristics of the solution:

- improved image of the Bank as an institution functioning in digital reality and target increase in sales in this channel
- particular care was taken to make navigation intuitive,
- the page appearance is in line with the modern trends, and the minimalistic, modern graphic layout makes it easier to focus on the content. The interface, buttons and other components that provide information or require user action have become much easier to operate. The method of presenting information has also been changed. On the basis of determination of user needs, the Web page creators made sure the language would be simple and easy to understand
- the new Web page was also designed to ensure maximum effectiveness when used with mobile tools
- the page is friendly for disabled users and meet the WCAG 2.1 standard requirements. Materials are published in the manner compatible with technologies that support Internet use by persons with poor sight. In addition, all components are presented in the manner, which is easy to grasp intuitively
- at the development stage - customers will be able to use tools that facilitate reaching new information and making buying decisions. New calculators will be developed, including those ecologically related to the unique offer of BOŚ. Works will also be continued to optimize the positive customer experience in response to their new and changing needs.

## 6.4. Brokerage activity

Brokerage activity in the Capital Group of BOŚ S.A. is conducted through Dom Maklerski BOŚ S.A. Company.

Year 2019 was yet another year of low liquidity on the Warsaw Stock Exchange. Trade on the market of shares in trading sessions lowered by 6.27% y/y, and on the market of contracts - by 13.52%. Throughout the entire year 2019, smaller companies (sWig80 +13.9%) performed the best, while the biggest ones with highest liquidity - the poorest (Wig20 - 5.6%). As a result, the Wig index gained 0.2% y/y/

Dom Maklerski BOŚ SA maintained its strong market position on the share market among domestic brokers in 2019, achieving the share in trading sessions of 3.05%. Once again, the Company became a leader of the market of futures with a share of 21.26%. On the new connect market, its trading share amounted to 17.10%, equivalent to the second place.

In 2019, Dom Maklerski BOŚ S.a. maintained its strong position on the public offering market, introducing two issuers on the main market of the Warsaw Stock Exchange (DataWalk SA and XTPL SA), as well as 3 ETF funds (Beta ETF Wig20TR, Beta ETF mWig40TR and Beta ETF Wig20short), for which Dom Maklerski is also the animator. Dom Maklerski BOŚ also introduced Carbon Studio SA on the NewConnect market, acted as a member of the distribution consortium for issue of shares of BoomBit SA (IPO issue) and CI Games SA (SPO issue), as well as for issue of bonds of the following companies: Echo Investment SA, Ghelamco Invest Sp. z o.o., PCC Rokita SA and Kruk SA.

## 6.5. JESSICA initiative

### JESSICA initiative

The Bank continued its activity acting under JESSICA initiative (Joint European Support for Sustainable Investment in City Areas) as Fund for the Development of Urban Areas (Fundusz Rozwoju Obszarów Miejskich - FROM) for the Zachodniopomorskie Voivodship (except for Szczecin Metropolitan Area), Pomorskie Voivodship (except for Gdańsk, Gdynia, Sopot and Słupsk) and the Śląskie Voivodship.

### JESSICA II initiative

The Bank provides preferential financing for urban projects in Zachodniopomorskie Voivodship based on revolving of funds from the JESSICA initiative. Thanks to the JESSICA loan, it was possible to implement three new renewal projects.

## 6.6. JEREMIE program

In 2019, the Bank continued to participate in the JEREMIE Initiative as a Financial Intermediary. Due to exhaustion of available funds, the activity of BOŚ was focused on monitoring of correct implementation of the investment projects and loan spending by beneficiaries, as well as reporting the account balances to the Implementing Entity.

## 6.7. Cooperation with foreign financial institutions in BOŚ S.A.

The Bank has continued cooperation with international financial institutions, including the European Investment Bank (EIB), which is one of its most important lenders.

Lender	Loan amount	Available amount	Currency	Contract date	Principal repayment date
European Investment Bank, Luxembourg	50000	-	EUR*	11/12/2007	15-06-2020
Council of Europe Development Bank, Paris	50,000	-	EUR*	3/17/2008	tranche 1 25-04-2023 tranche 2 and 3 25-10-2023
European Investment Bank, Luxembourg	75000	-	EUR	3-12-2009	tranche 1, 2 and 3 15-06-2021
Council of Europe Development Bank, Paris	50,000	-	EUR	8-03-2010	tranche 1 22-04-2025 tranche 2 9-07-2021 tranche 3 15-12-2021
European Investment Bank, Luxembourg	75000	-	EUR	8-02-2012	tranche 1 15-06-2020 tranche 2 15-03-2021 tranche 3 15-12-2021
Council of Europe Development Bank, Paris	75,000	-	EUR	26-03-2012	tranche 1 26-07-2021 tranche 2 21-10-2022 tranche 3 1-12-2023
European Investment Bank, Luxembourg	75000	-	EUR	05-03-2015	tranche 1 15-06-2023 tranche 2 15-12-2023
European Investment Bank, Luxembourg	75,000	45,000	EUR	13-06-2017	tranche 1 15-12-2028 tranche 2 15-12-2029 remaining amount with the repayment term of 12 years from the date of utilization of funds
TOTAL EUR	525,000				

## 6.8. Key investments

In 2019, key expenditures in the BOŚ S.A. Group amounted to PLN 39.7 million, including PLN 31.9 million at the Bank.

The Bank implemented 18 investment projects in 2019 in the field of intangible assets, focused on business, improvement and development initiatives, as well as the necessity to adapt the bank to legal and/or regulatory requirements of supervisory institutions.

The most significant business projects, related to improvement of effectiveness of action and maintaining continuity of the Bank's operations, included:

- The project of implementation of the systemic-service platform, making it possible to adapt the card product range to customer needs, requirements of the paying authority and the legislative bodies. Implementation of the platform as proposed will make it possible to introduce changes in the Bank's product offer, including introduction of solutions that generate additional revenues/savings for the Bank - the Cards Project,
- A project implementing a new electronic and mobile banking system at the Bank, making it possible to reach a competitive level of electronic and mobile banking services and ensuring support for achievement of the Bank's business objectives - the Electronic Banking and PSD2 Project.
- A project aimed at developing a modern, functional and technologically advanced Web page of the Bank as a modern tool to support sales - the Web Page Project,
- A project implementing a new managerial reporting system at the Bank, based on modern, dedicated software, using innovative methods, analytical models and statistical tools and providing users with access to data and information in accordance with their needs and authorization levels - the Business Intelligence Project.

Among the legal and regulatory projects being implemented, the most important are those adapting the Bank to the compulsory formal requirements:

- Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC along with the detailed guidelines specified in the RTS documents in accordance with its transposition into implementing Polish regulations - the BE and PSD2 (Electronic Banking) Project, adapting the Bank to requirements of the Directive in terms of security, that is, strong customer authentication, handling of the access interface for authorized third party providers (TPP) and mobile authorization - the so-called mobile token.
- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC - the GDPR Project, adapting the Bank's systems and regulations to requirements of the regulation on personal data protection.
- The act of 5 July 2018 amending the General Tax Law Act and some other legal acts, concerning reporting to STIR of data from systems of the Bank - the STIR Project, adapting the Bank to reporting to STIR of data from the Bank's system regarding the clients, accounts and transactions in the new format, introducing reporting of deposit accounts and associated blockades and making it possible to handle requirements of the Head of the National Fiscal Administration with regard to IP address data.
- Regulation 1286/2014 of the European Parliament and the Council and Directive 2014/65/EU of the European Parliament and of the Council regarding the obligation to inform investors of the risks associated with investment products - the KID (Client Information Card) Project, which has resulted in implementation of the new Information Card for Investors (in accordance with MIFID II).

2019 was also the time of works on improvement of the cash handling process in the Bank, the client interaction support process (CRM) and projects promoting pro-ecological behaviors of the Bank's employees, as well as the local communities. These expenditures were financed by own funds.

In Dom Maklerski BOŚ S.A., the investment expenditures in 2019 amounted to PLN 6.7 million. Investments of Dom Maklerski BOŚ S.A. were associated mainly with development of online systems, in particular, information systems for clients and the ICT infrastructure of DM BOŚ S.A., aimed at ensuring a high standard of customer service both on the market of financial instruments and on the market of commodities, as well as adaptation to changes in infrastructural systems on the markets of operation of Dom Maklerski BOŚ S.A. These investments were financed by own funds Company deed.

The Group's investment expenditures in 2020 are expected to be similar to those in the previous years. They will be financed by own funds. Most of the investments planned have been adapted to the Group's capacity.

## **6.9. Investing in human resources - trainings**

Development of competences has focused on business and managerial competences, supporting the Bank's transformation, as well as delivery of strategic initiatives, taking into account the issues of ecology, environmental protection and adaptation of processes to external regulatory requirements.

Classroom trainings were attended in total by 2,353 participants (3,806 man-days), including 2,076 participants of group trainings and 277 - of individual trainings.

In total 1,165 persons participated in e-learnings, some of them participated in more than one, or even more than 10 trainings. Counting per person/per training, it gives the sum of 17,835.

The topics were mainly related to the following type of knowledge:

- counteracting money laundering and financing of terrorism AML/CFT, with regard to the legal provisions in force, including identification of beneficial owners, client risk analysis and assessment, fraud,
- competences indicated in the annex to the act on insurance distribution, ensuring compliance with the requirement of participation by every agent or natural person performing agency tasks in 15 hours of professional trainings per year,
- cyber-security,
- products from the area of the retail customer market, i.e. bank accounts (including the Basic Payment Account), cash loans, deposits, mortgage loans,
- products from the area of the institutional customer, i.e. settlement products, loan products, factoring, bonds, guarantee instruments and treasury bonds,
- the role of the Bank as an agent of an Investment Firm and investment products offering, resulting from the MIFID II Directive,
- internal standards of quality of services, sales process and internal cooperation,
- procedures and information concerning security and personal data protection in the organization, as well as legal requirements according to GDPR,
- operating risk issues, such as the fundamental principles of physical security of cash, cash and cashless trading, the card management process and complaints (including notifications concerning unauthorized payment transactions), the quality of data transferred to external databases and applications enabling reporting of operating risk incidents,
- bank ethics,
- counteracting mobbing,
- ecological questions, including RSE technology (Renewable Sources of Energy).

Moreover, this formula included trainings on personal development and soft skills, encompassing such topics as assertiveness, interpersonal communication, public appearances.

## **7. INFORMATION ON SALES MARKETS, SUBDIVIDED INTO DOMESTIC AND FOREIGN MARKETS**

BOŚ S.A. operates on the domestic market with the reservation that the Bank, through an intermediary, obtains deposits in EUR on the German market. Deposits obtained on the German market constitute less than 1% of liabilities to clients.

Dom Maklerski BOŚ S.A. has a branch in the Czech Republic. Bossa.cz provides Czech investors with access to the forex market in the same formula as the central office in Poland - the standard and micro account, the BossaFX transaction system in the online and mobile versions. Revenues of the Czech branch constitute 5.21% of revenues of Dom Maklerski BOŚ for year 2019.

Dom Maklerski BOŚ S.A. conducts no other activity outside the territory of the Republic of Poland.

## **8. INFORMATION ON KEY ACHIEVEMENTS IN THE FIELD OF RESEARCH AND DEVELOPMENT AND INFORMATION ON EXPECTED DEVELOPMENT**

The BOŚ S.A. Group does not conduct any research activity. Achievements with regard to development of the Company have been described in clause II of this Report.

As of the date of confirmation of this report, no circumstances have been determined that would indicate a threat to continuation of operation by the Bank and companies of the Group in the period of at least 12 months after the balance sheet date due to intended or compulsory discontinuation or limiting of activity (more information can be found in note 2.4 of the Annual Consolidated Financial Statements of BOŚ S.A. for the year ended on 31 December 2019).



### III RISK MANAGEMENT IN THE GROUP

#### 1. CREDIT RISK

The key objective of credit risk management in year 2019, in particular, with regard to asset quality management, was to improve the quality and structure of the loan portfolio. Activities aimed at improvement of quality of the loan portfolio were focused on implementation of a policy assuming a limited risk appetite, making it possible to reach, within the perspective until year 2021, the risk cost level around the average for the sector.

In order to improve the loan portfolio structure, the Bank continued its activity initiated in the previous periods, aimed at diminishing unit expositions and the concentration risk.

The key activities to support this objective in the previous year included:

- improvement of effectiveness of the decision-making process, in particular, with regard to simplification of the decision-making levels, optimization of the mode of processing of departures and appeals, as well as limiting of the number of documents accepted,
- optimization of the monitoring process, among other things, through changes in the process of monitoring of contractual covenants and improvement of the process of monitoring of clients with low credit exposure,
- improvement of the assessment process for investments in renewable energy sources,
- limiting the level of loan portfolio concentration by constant optimization of internal exposure limits, including the application of exposure limits by client depending on the assigned rating,
- further optimization of the restructuring & debt collection process through implementation of requirements based on Guidelines of the European Financial Supervisory Authority EBA/GL/2018/06 of 31 October 2018 on management of non-performing and restructured exposures.

The product offer was tailored according to the needs of each customers segment and was in particular developed towards intensification:

- for the institutional client market - of the offer that would satisfy the complex needs of clients, including specialization in the broad range of pro-ecological products,
- for the market of individual customers - of the offer aimed mainly at financing of pro-ecological solutions.

The Bank financed transactions that were compliant with generally applicable provisions of law.

In accordance with its credit policy, the Bank refrained from transactions that:

- could pose a risk to its reputation,
- could result in exceeding the obligatory concentration limits by debt charged with the risk of one entity or entities related by capital or organization,
- would violate the provisions of the Environmental Protection Law or be a potential source of damage to the natural environment,
- would be effected for clients without reliable, fixed and stable income.

The decisions on provision of funding were conditional on:

- creditworthiness of the borrower to repay the proposed debt at times agreed upon with the Bank,
- providing a collateral in the form and amount accepted by the Bank, if required by the internal regulations,
- meeting other criteria for taking financing such as, in particular, the results of customer's relationship with the Bank and the credit history assessment in the banking sector.

The customer and the transaction were subject to comprehensive credit risk assessment.

The Bank carried out credit risk assessment using rating and scoring models depending on the customer and the transaction type. Models were created, developed and supervised in the Risk and Planning Area taking into account internal and external requirements.

The credit risk assessment model for individuals applying for funding not related to business activities comprised:

- a quantitative analysis - the determination of the value and stability of loan repayment sources and

- a qualitative analysis - evaluation of retail clients' characteristics affecting considerably the client's willingness to repay the loan at such dates as specified in the agreement, including scoring and assessment of the client's behavior on the basis of information obtained from Biuro Informacji Kredytowej S.A. (Credit Information Bureau).

The assessment process was carried out in compliance with Recommendation T and Recommendation S of the Polish Financial Supervision Authority, in particular with respect to introduction of appropriate Dtl and LtV levels as well as the possible use of the simplified creditworthiness assessment procedure.

In the client assessment process, the Bank used information from various sources, including information from external databases.

The credit risk assessment model for individuals applying for funding related to running a business or statutory activities (municipal entities) focused on two areas: assessment of client and assessment of transaction (rating).

Assessment of the client was performed on the basis of quantitative and qualitative elements. The quantitative assessment concerned basic, from the point of view of net profit generation and keeping liquidity, areas of activity of the client. Qualitative assessment included in particular: assessment of development plans, experience and skills of managers, quality of the relation between client and external environment, including the Bank.

The risk assessment model applied to local government units consisted of analysis of the Client based on assessment of basic budget indicators, debt ratios and analysis of the transaction on the basis of assessment of the planned debt ratios, quality of the collateral and the transaction length.

In the case of funding being granted to a client functioning in the group of entities that were related in terms of their capital or organization, the Bank assessed the credit risk taking into account the influence of the condition of related parties.

Transaction assessment was performed in particular on the basis of the purpose of funding, length of the credit period and value of the repayment collateral. The Bank established the financing structure to provide risk-sharing between the borrower and the Bank, mainly by the exposure of the borrower's own funds adequate to the scale of the risk.

For exposures related to corporate clients, the risk assessment was reviewed by a credit risk expert, an employee specializing in risk identification and in selection of appropriate forms of its mitigation, independently from sale services.

The Bank monitored the credit risk throughout the whole life of the credit transaction.

If the Bank identified a situation that could jeopardize the timely repayment, the Bank undertook admonition and restructuring procedures using, among others, such tools as early warning system (EWS) solutions.

The Bank analyzed all credit exposures on a monthly basis in order to:

- identify impairment exposures,
- measure impairment,
- recognize impairment losses or provisions.

The Bank used individual and collective approach for the purpose of credit exposure measurement and impairment losses or provisions recognition.

The expertise to make credit decisions at the Bank depended on:

- the type and value of the transaction,
- total credit exposure to the Bank to the group of entities related by capital or organization, to which the client belongs,
- the level of risk generated by the client and the transaction.

The Bank has put in place a system of credit decision-making, the basis of which is the rule that the higher the risk of the transaction due to its complexity, the amount of exposure or the financial and economic condition of the client, the higher decision-making level is authorized to make the decision. The decision-making level with highest clearance level are the Credit Committee of Headquarters and the Management Board of the Bank. Credit decisions are made upon prior verification of risk made by the person specialized in risk assessment and mitigation, i.e. an expert from a separate organizational unit in

the Bank's Headquarters, independent from the sales forces.

In making credit decisions on transactions with members of the Bank or persons occupying management positions at the Bank or entities related to the Bank through capital or structure, the Bank was taking into account the requirements of the Banking Law.

The Bank accepts material and personal guarantees as collaterals.

The Bank preferred collateralized transactions, provided that it was established a maximum level of unsecured transactions in retail segment as well as criteria for granting unsecured transaction considering specificity of a product, customer segment, the impact of these transactions on the results of the Bank and the amount of potential loss.

The collateral level depended on the level of risk generated by the transaction, in particular - the type and length of transaction.

Setting the value of collateral, the Bank admitted the rule of prudent valuation.

When choosing the type of collateral, the Bank considered:

- due protection of the Bank's interests,
- costs associated with the establishment of a given collateral,
- the possibility to quickly liquidate a given collateral.

The Bank has identified, measured, monitored and reported the concentration risk of the engagements on the following levels:

- individual client and transaction,
- credit portfolio.

On the customer and transaction level, the engagement concentration risk was managed by compliance with the supervisory limits of engagement, especially those related to Regulation (EU) of the European Parliament and the Council No. 575/2013 of 26 June 2013 or the Banking Law and by application of the principle that the risk assessment process and risk monitoring depends on the amount of credit exposure.

On the level of loan portfolio, engagement concentration management was performed by complying with internal limits or warning values, approved by the Bank's Management Board or Supervisory Board for limits through which the Bank sets the acceptable level of credit risk appetite.

In particular, the Bank applied the following limits:

- geographical limit - setting exposure toward other countries;
- limits referring to product parameters (e.g. maximum LTV);
- limits referring to the portfolio of mortgage loans and loans financing real property - resulting from PFSA recommendations,
- limits related to the share of foreign currency loans in the Bank's loan portfolio,
- limits of the acceptable total exposure in equity-related or organizationally related parties/ group of related parties, which exceeds 10% of the Bank's recognized capital;
- limits of the acceptable total exposure to equity-related or organizationally related parties/ group of related parties, depending on rating awarded to the parent entity or entity with highest exposure;
- industry limits;
- limits on credit exposures towards the Bank's subsidiaries.

In 2018, the Bank established an early warning ratio system which applies to every external limits in the area of credit risk. The system is based on distinguishing of three levels of limit usage and gradual implementation of actions mitigating the risk of exceeding the limit, depending on the level of the limit usage.

The level of limits usage was periodically monitored and reported to the authorities of the Bank in accordance with the internal regulations of the Bank.

In line with the requirements set out by the Polish Financial Supervision Authority in Recommendation C, Recommendation T and Recommendation S, the Bank performed stress tests in the field of credit risk for its retail and corporate loan portfolios, including in respect of the largest exposures.

Information regarding the credit risk level in the Bank's loan portfolio was presented to the Management Board on a monthly basis and to the Supervisory Board at least on a quarterly basis.

In its lending process, the Bank complied with supervisory requirements, good banking practices and internal procedures.

## 2. FINANCIAL RISK

The financial risk in BOŚ Group is concentrated mainly in BOŚ S.A. and in Dom Maklerski BOŚ S.A. (DM BOŚ S.A.) and includes:

- 1) liquidity risk,
- 2) market risk, including:
  - interest rate risk (in banking and trading book);
  - currency risk (mainly in the trading book; currency risk from the banking book is transferred to the trading book),
  - other risks (general risk and separate risks regarding prices of equity instruments, as well as the risk of commodity prices).

Liquidity risk and interest rate risk are applicable mainly to the Bank, while the currency risk - to DM BOŚ S.A. (in the trading and non-trading book) and in the Bank (in the trading book; the currency risk from the banking book is transferred to the trading book), DM BOŚ S.A. also faces the risk caused by equity instrument items and the risk of commodity prices.

The basic rules of risk management for the Bank, as well as the BOŚ Group with regard to financial risk are specified in the Strategy for banking risk management. The Strategy constitutes an integral part of the valid Strategy of action of the Bank.

The risk management system at the BOŚ Group includes examination of various types of risks, associated with activity of the Bank, as well as the Group Companies. As the parent entity, the Bank supervises the Group's risk management system. The risk management process is subject to periodic reviews, which are aimed at adapting this process to changes taking place in the environment, as well as in the Bank and the Group.

Risk management at the Bank is conducted on the basis of the risk appetite and tolerance levels determined by the Supervisory Board of the Bank, using a set of internal limits. The Bank has put in place policies applicable to the management of liquidity risk, interest rate risk in the banking book and market risk. The policy sets, among others, maximum levels of financial risk, according to the risk appetite adopted by the Bank's Supervisory Board. These have served as a basis for establishment of an early warning system, which focuses on identification, measurement, monitoring, controlling and reporting of risk.

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

- 1) credits granted, guarantees, advances, term deposits and deposits received,
- 2) transactions, which secure liquidity and interest rate risk of operations included in the banking book,
- 3) purchase of securities with purpose other than trading.

In line with the strategy of the BOŚ Group, activities in the trading book compensate activities in the banking book. The trading book contains transactions that were performed on the Bank's own account with the aim of trading, i.e. of gaining financial profits in short-term periods due to real or expected differences between bid and offer prices in the market, as well as other deviations of prices or price parities, including especially: interest rates, exchange rates and stock exchange indices. Sale of transactions held in the trading book is not used to maintain liquidity. The function of the trading book is to

provide the Bank's customers with the highest quality of services. In order to achieve this, the Bank and DM BOŚ S.A. maintain open positions, within the binding risk limits.

The aim of risk management of the BOŚ Group is to maintain the individual risk types at the approved tolerance and appetite levels, making it possible to protect the value of shareholder capital, maintain security of deposits of clients and achieve proper effectiveness of operations of the BOŚ Group, including the ability to adapt activity of the BOŚ Group to the changing market conditions, competences and commitment of the managerial and employee staff and quality of the managerial information systems.

The level and profile of financial risk is regularly monitored in the Department for Financial and Operational Risk of the Bank (the second line of defense department) and in DM BOŚ S.A. and reported to: The Bank's Supervisory Board, the Supervisory Board of DM BOŚ S.A., the Risk Committee (at the Supervisory Board of the Bank), the Management Board of the Bank, the Management Board of DM BOŚ S.A., the Committee of Assets and Liabilities Management (ALCO) and the ALCO Liquidity and Market Risk Committee (ALCO LMRC).

## 2.1. Liquidity risk

The BOŚ Group's purpose of liquidity management is to maintain the Group's ability to finance assets and pay liabilities in a timely manner and to maintain a sustainable structure of assets and liabilities, which ensures a safe liquidity profile in specific periods of time, split into liquidity in PLN and the main foreign currencies, but mostly - for the total liquidity position. The liquidity risk is mainly generated by the Bank.

The strategy and processes in liquidity risk management are adapted to the profile and scale of operations of the Bank. The liquidity risk management strategy is defined in the Liquidity Strategy of BOŚ S.A., approved by the Supervisory Board. The strategy defines the Bank's risk appetite and sets out the main directions and quantitative targets for the selected positions and is an integral part of the Bank's Framework Strategy of Action. Liquidity risk tolerance adjusted to the adopted risk appetite was determined in the Liquidity Risk Management Policy approved by the Supervisory Board and realized through the system of internal limits and warning or monitoring values, obligatory in the Bank.

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

Liquidity in the Bank is analyzed over the following time horizons:

- intra-day liquidity - during the day;
- current liquidity - in the period up to 7 days;
- short-term liquidity - in the period up to 1 month;
- mid-term liquidity - in the period of above 1 month to 12 months;
- long-term-term liquidity - in the period of more than 12 months.

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

- 1) the intra-day liquidity limit - reflects the level of funds necessary to be maintained on the NBP account, for settlement of the Bank's obligations during the day, in normal and stress situation,
- 2) liquid assets (excess liquidity) - as a buffer for expected and unexpected outflows in a horizon of 30 days,
- 3) liquidity stock - measures the level of liquid assets, less the expected, unexpected outflows of liquidity defined in 30 days, including the mark-up on the concentration,
- 4) stability of deposit ratio assessment,
- 5) short-term liquidity gap (PLN, EUR, CHF, USD) - shows the level of mismatch in the financing structure in foreign currencies, the gap includes mainly cash flows from derivative and interbank transactions,
- 6) stress tests (i.e. allowing for the verification of the ability to maintain liquidity as defined in the Bank's term in different scenarios).

In order to measure liquidity and liquidity risk in medium- and long term, Bank sets and monitors:

- 1) the contractual liquidity gap and liquidity gap in real terms (which is supplemented by a systematically carried out analysis: the stability of the deposit base, concentration of the deposit base, the size of prepayment of credits and the level of deposits' withdrawals),
- 2) coverage ratio of long-term assets by long-term liabilities,



- 3) coverage ratio of loans used to finance long-term needs of customers as the most stable sources of funding;
- 4) forecasts of the LCR, NSFR, liquid assets and long-term liquidity measures (such as the NSFR).

In order to evaluate effectiveness of the process of managing liquidity risk, for the majority of above-mentioned measures, limits or warning values are determined within the set of internal limits of liquidity risk. They are hierarchical, which means that they are determined at the level of the Supervisory Board, Management Board and the Committee of Assets and Liabilities Management. The applicable limits and warning values are regularly reviewed in order to ensure effective monitoring of liquidity. The limits and warning values set the framework for the tolerance of the Bank's liquidity and are consistent with the appetite for risk adopted by the Bank. Developing the appropriate liquid risk profile is supported by taking into account the cost of liquidity in the Bank's current transfer pricing system.

Measures and tools used by the Bank are regularly reviewed and updated, which allows for a better mapping of the liquidity profile. The process of monitoring liquidity and liquidity risk in the Bank is supported by a dedicated information systems (particularly in terms of generating contractual and actualized liquidity gap and reporting supervisory liquidity measures, internal limits and preparing mandatory reporting). At least once a year, the Bank elaborates a review of the Internal Liquidity Adequacy Assessment Process (ILAAP), according to the guideline EBA/GL/2016/10 regarding information on ICAAP and ILAAP, gathered for the purposes of the Supervisory Review and Evaluation Process (SREP). This review is to be subject to an opinion performed by the ALCO Committee and to be approved by the Management Board and the Supervisory Board of the Bank. The ILAAP review conducted by the Bank as at 31 December 2019 showed compliance of the process with the Bank's internal regulations and guidelines.

Liquidity risk reports are presented mainly to the Bank units participating in the risk management process. Results of the risk analysis, the degree of utilization of supervision standards and internal limits, as well as results of stress tests are presented in reports prepared for the ALCO Liquidity and Market Risk Committee (in weekly cycles), the Management Board of the Bank and the Committee of Assets and Liabilities Management (in monthly cycles) and for the Supervisory Board of the Bank and the Risk Committee at the Supervisory Board (in quarterly cycles). These reports are a part of the Managerial Information System (MIS), which is aimed at supporting management of the Bank, improving the efficiency of performance of its tasks and ensuring security and stability of functioning.

### The general liquidity risk profile

The primary source of financing for the Bank remains a systematically built, diversified deposit base with a large share of stable deposits from retail customers (supplemented with deposits of corporate customers and the public sector) and additionally, loans received from international financial institutions (which, along with long-term bilateral interest swap contracts secured by debt securities and FX Swap transactions, are also a source of funding liquidity in foreign currencies). The Bank exercises ongoing monitoring of the deposit base concentration risk. The internal liquidity measures take into account the additional mark up on sustainable funds due to concentration, measured on the basis of deposit balances for large deposits and deposits of big clients (classified in accordance with the definitions used by the Bank).

Liquid assets (excess liquidity) owned by the Bank, are held mainly in the NBP bills characterized by high liquidity (as at 31 December 2019 representing 40% of the portfolio of liquid unencumbered securities) and State Treasury bonds (as at 31 December 2019 - 60%), with low specific risk. The portfolio of these securities is supplemented by cash and deposits held with NBP (above the declared level of reserve requirement) and nostro accounts with other banks. As at 31 December 2019, liquid assets amounted to PLN 3,429 million. Liquid assets are the buffer to protect liquidity in possible emergency situations, i.e. there is a possibility of a lien, liquidation through repo transactions or sales at any time, without significant loss of value. The possibilities of selling liquid assets (liquidity risk of the product) are systematically monitored. In these analyses, the Bank takes into account primarily the following: size of issue, market turnover and volatility of the price of purchase/ sale.

In accordance with the recommendations of the Polish Financial Supervision Authority and the National Bank of Poland, the Bank has the ability to use additional sources of financing in the form of technical and lombard credits at the NBP, the Bank can as well apply for obtaining a refinancing loan.

Internal capital to cover the liquidity risk, which is considered to be a significant constant risk, is determined in the Bank in accordance with the applicable process of internal capital estimation. This



capital is estimated on the basis of the cost of restoring supervisory and internal measures and liquidity limits under the conditions of stress test scenarios.

### The liquidity risk measures

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

The currently applicable norms regarding short-term liquidity include the liquidity coverage requirement - LCR (ratio of liquid assets to net outflows (i.e. difference between net outflows and net inflows) through the period of extreme conditions, it is 30 calendar days). The LCR is calculated for all currencies in total (in conversion to PLN) and separately for significant currencies: PLN and EUR. For the ratio in EUR, the Bank identifies the currency mismatch associated with the mode of financing of long-term loans granted in this currency.

In accordance with EBA/GL/2017/01 Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU)

No 575/2013, the Bank presents in the Information on BOŚ Group, disclosed in accordance with part eight of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 "Disclosure by Institutions", quantitative and qualitative data on the liquidity coverage ratio. The above information is disclosed in accordance with instructions provided by the European Banking Authority. The table can be found in clause 18 - *Liquidity requirements (EBA/GL/2017/01 Guidelines of 21 June 2017 on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013)* in the Information on the Capital Group of Bank Ochrony Środowiska S.A. of qualitative and quantitative nature, concerning capital adequacy as at 31 December 2019.

The long-term standards include the following ratios: M3 (illiquid assets coverage by own funds - ratio) and M4 (illiquid assets and those with limited liquidity coverage by own funds and not-owned fixed funds - ratio). The Bank determines and reports to the Polish Financial Supervision Authority the level of net stable funding ratio (NSFR) and introduced an internal warning value for this ratio at the level of target supervisory limit, i.e. 100%. As at 31 December 2019, the value of this ratio amounted to 109%. Moreover the Bank, in accordance with Commission Implementing Regulation (EU) 2016/313 of 1 March 2016 amending Implementing Regulation (EU) No 680/2014 with regard to additional monitoring metrics for liquidity reporting, prepared the ALMM reports and submitted them to the National Bank of Poland, as part of its statutory reporting. According to Resolution No. 386/2008 of the Polish Financial Supervision Authority, the Bank also performs an in-depth analysis of long-term liquidity. The results of analyses performed are used to manage the Bank's liquidity. At the same time, the process of preparing short- and long-term financial plans of the Bank includes an assessment of liquidity, to ensure an adequate financing structure and compliance with the supervisory liquidity measures.

In 2019, as in 2018, the supervisory liquidity measures, i.e. LCR and M3-M4, were determined daily (i.e. every working day), and remained at a safe level, significantly above the regulatory levels. As at 31 December 2019, these measures were as follows:

Ratio	31-12-2019	31-12-2018
LCR	131%	132%
M3	81.3	99.3
M4	1.30	1.33

The Bank has an action plan approved by the Management Board, for maintaining liquidity in emergency situations, which determines the potential sources of deterioration / loss of liquidity, rules of conduct and competences required in emergency situations, in order to estimate the horizon of survival, as well as the possibility and the cost of restoring the stable liquidity condition. Apart from the scenario-based analysis of liquidity in emergency situations (the assumptions of which are consistent with the stress tests that were carried out), the plan also includes certain measurable and immeasurable symptoms leading to emergency situations, allowing for the systematic monitoring of the source of crisis regarding liquidity.

The scenario analysis of liquidity in emergency situations and stress tests include three types of

scenarios:

- 1) internal crisis - its source is a loss of trust to the Bank by market participants (a so-called "run on the Bank"), a reduced availability of financing, materialization of concentration risk and downgrading of the Bank's rating;
- 2) external crisis - assumes materialization of currency risk, rise of interest rates, crisis in financial markets and a possible second-round effects, and;
- 3) mixed crisis - combines elements of both internal and external crisis.

The stress tests performed help to identify some factors that can have impact on liquidity risk in case of their materialization. They also allow to develop measures to be taken in the event of emergencies.

As a part of its analyses, the Bank also performs the sensitivity analysis of the Bank's individual factors generating liquidity risk and reversed tests. The plan of action for maintaining liquidity in emergency situations is regularly reviewed and updated, so as to guarantee the operational preparation of the Bank to launch potential actions in the event of a liquidity threat. The scenario analysis of liquidity in emergency situations is prepared semi-annually, and the stress tests - on a monthly basis. The assumptions adopted for stress tests are regularly reviewed in line with conclusions of the scenario-based analysis of liquidity in emergency situations. The conclusions of the tests performed are taken into account in the current liquidity management and liquidity risk management, as well as when building the structure of assets and liabilities.

In its developed analyses, the Bank also takes into account the possibility of unfavorable changes in the foreign exchange rates, particularly CHF and EUR, potentially causing an increase in liquidity needs.

In accordance with annexes to the security framework agreements signed with contractors (Credit Support Annex, CSA), Credit Support Annex for Variation Margin (CSA VM) the Bank, in case of adverse market changes (i.e. exchange rates), is obliged to submit additional collaterals; in the case of positive changes - the Bank receives additional collaterals from contractors. This documentation does not include decisions changing the amount of the collateral submitted because of a rating change. This means that reducing the level of creditworthiness does not affect the amount and method of calculation of collaterals. In 2019, the Bank signed the Global Master Repurchase Agreement (GMRA), containing provisions extending the catalog of "infringements" by adding a clause on the Bank's rating. If the rating drops below "BB-" or verification by Fitch is discontinued, the contractual party may indicate an early settlement date to take place through sale of bonds on the interbank market, while the funds in CHF would remain in the Bank (settlement of the difference would take place in cash in EUR).

The stress tests performed in the 2019, similarly as in 2018, show a stable liquidity position of the Bank and that its liquid assets (excess liquidity) allow for the survival of the established stress test scenarios, in which the Bank envisages survival in a defined time horizon.

In 2019, similarly as in 2018, the BOŚ Group's liquidity situation was systematically monitored and remained at a safe level.

## **2.2. Interest rate risk**

The interest rate risk is a possible negative influence of interest rates changes on forecast financial result as well as on the economic value of equity and the current value of BOŚ Group's owned debt securities. The interest rate risk is mostly generated in the Bank, both in the banking book and trading book.

### **The interest rate risk in the banking book**

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

To achieve this, the Bank uses two tools: the investment portfolio held and derivative transactions performed under hedge accounting. The investment portfolio, built in the banking book, should help to, among others, secure net interest income generated in Bank's equity and to secure core deposits in current account insensitive to variations of interest rate. On the other hand, this portfolio results in volatility of the revaluation reserve.

The Bank uses fair value hedging. Its aim is to hedge the fair value of State Treasury fixed-rate bonds which represent a part of the portfolio of bonds within the HtC&S model and constitutes a liquidity buffer for the Bank. The IRS hedging transactions carried out limit the capital fluctuations relating to changes in interest rates.

Monitoring of interest rate risk in the banking book is supported by a dedicated IT system, by means of which the Bank sets/performs in particular:

- 1) the repricing gap that represents values of assets, liabilities and balance items sensitive to the exchange rates changes in periods of maturity or of revaluation;
- 2) a simulation of interest income - a dynamic analysis, reflecting WO projection in pre-set time intervals, based on assumed scenarios of Bank's development and assumptions regarding market factors' development;
- 3) a simulation of the current value (net present value, NPV), representing discounted values, according to the pre- set market parameters, for all cash flows; NPV analyses are the basis for setting the measures BPV and WEK;
- 4) various price shocks underlying the basis risk, which aim to assess the impact the diversified change of rates on products on the interest result. These product rates are based on different basis rates;
- 5) the yield curve risk analysis, which aims to assess the impact of non-parallel changes of the yield curve on the economic value of equity;
- 6) the risk of client options' analysis, which aims at assessing the impact of options realized by clients and embedded in interest products on the financial result of the bank;
- 7) stress tests including reversed tests and the Supervisory Outlier Test (SOT), which aim is to determine total changes of market factors will result in a determined impact on the measurement of the interest rate risk in the banking book;
- 8) the internal capital level to the interest rate risk in the banking book.

### The interest rate risk ratios in the banking book

In order to control the interest rate risk in the banking book, the Bank uses two measures: net interest income sensitivity (NII) to interest rate changes by +/- 100 b.p. and economic value of equity sensitivity (EVE) to interest rate change by +/- 200 b.p. The interest rate risk measurement in the banking book is performed on the basis of characteristics of products (capital movement schedules, revaluation of interest rates, embedded options) resulting from agreements signed with contractual partners. For current products, in which the client has the freedom of shaping e.g. the repayment schedule or availability of funds, the Bank builds the so-called replicating portfolios, which reflect the economic terms of capital movements. In the replicating portfolios applied, the average maturity of deposits with undetermined maturity is 6 months, and the maximum maturity is 12 months. Moreover, the Bank takes into account client behaviors such as: early credit repayment levels or deposit breakage levels, which are estimated as defined by the internal regulations of the Bank. The assumptions made are consistent with BA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading activities.

The table below presents a comparison of NII and EVE values between 31 December 2019 and 31 December 2018:

	$\Delta$ WO		$\Delta$ WEK	
	-100 b.p	+100 b.p	-200 b.p	+200 b.p
31-12-2019	-43,737	33,718	29,975	-66,589
31-12-2018	-50,171	36,338	19,631	-58,542
The change	6,434	-2,620	10,344	-8,047

In 2019, as in 2018, the above measures were within the limits/ warning limits. The asymmetrical impact of interest rates fluctuations on NII and EVE results from the characteristics of interest rates for individual items sensitive to interest rates fluctuations, including, among others, restrictions of decrease in individual sources of finance to 0 level, with negative market interest rates. The changes in values of NII and EVE are to a certain degree cyclical, which is associated with the regular nearing of the date of revaluation of variable interest items and maturity dates of fixed interest items.

In 2019, the Bank implemented the EBA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading activities, in particular, by implementing the Supervisory Outlier Test, reviewing the principles of determination of internal equity for the interest risk rate in the banking book, analysis of sensitivity of products to changes in interest rates, assumptions used for risk measurement and model validation principles, applied to the process of management of the risk under concern.

Results of the Supervisory Outlier Test (SOT) for 6 standard shock scenarios for the interest rate risk, specified in the Guidelines, have been presented in the table below.

	ΔEVE in a given SOT scenario					
	parallel shock increase	parallel shock decrease	curve steeping	curve flattening	shock increase for short-term rates	shock decrease for short-term rates
31-12-2019	-53,584	17,877	7,251	-37,277	-52,785	12,520
30-06-2019*	-34,942	16,564	-1,421	-15,969	-25,777	2,523
The change	-18,642	1,313	8,672	-21,308	-27,008	9,997

\*\ SOT analysis has been conducted and reported since June 2019

The results of the Supervisory Outlier Test for outliers indicate that the Bank is most exposed to decrease in economic value of equity (EVE) as a result of the scenario of parallel increase in interest rates. Despite the increase in sensitivity of economic value of equity between June and December 2019, the level of this ratio is clearly below the supervisory warning limits, which proves moderate exposure to the interest rate risk.

On a monthly basis, the Bank performs a stress-test analysis by examining the development of the interest rate risk level in the banking and trading books in case of materialization of extreme changes in risk factors.

In the banking book, the impact of unfavorable changes is primarily examined with regard to:

- 1) interest rates on:
  - a) net interest result (NII),
  - b) economic value of equity (EVE),
  - c) portfolio in the banking book: securities under hedge accounting, debt securities, IRS and FX swap transactions:
    - a. scenarios of parallel shifts in interest rate curves by  $\pm 100$  b.p.,  $\pm 500$  b.p.,
    - b. scenarios of flattening, bending and steep running of interest rate curves,
- 2) exchange rates on the net interest income (NII) and economic value of equity (EVE) - the scenarios of exchange rates fluctuations by  $\pm 5\%$ ,  $\pm 10\%$  and  $\pm 25\%$ ,
- 3) interest rates and exchange rates, jointly on NII and EVE - the scenarios of total fluctuations in exchange rates of  $\pm 10\%$  and  $\pm 25\%$  and in interest rates of  $\pm 100$  b.p. (for NII),  $\pm 200$  b.p. (for EVE) and  $\pm 500$  b.p.
- 4) interest rates on sensitivity of economic value of equity (EVE) of the Bank under strictly defined scenarios of interest rate changes, based on the Supervisory Outlier Test.

The results of stress tests as at 31 December 2019 show that where extremely unfavorable market conditions and increased Bank's positions in the instruments sensitive to the interest rate risk occur, the activities of the Bank in the banking portfolio remain at a safe level.

Due to the nature of activity of the Bank and the structure of its securities portfolio, the interest rate risk in the banking book is constantly significant; the Bank estimates the internal capital for this risk. Accordingly with supervisory and internal regulations, the internal capital for the interest rate risk in the banking book refers both to potential changes in economic value of equity and the net interest income due to unfavorable changes in interest rates and is adapted to the structure and nature of operations of the Bank.

The results of the interest risk rate monitoring conducted in the banking book are presented in reports prepared for the ALCO Liquidity and Market Risk Committee (in weekly cycles), in reports prepared for the ALCO Committee and the Management Board of the Bank (in monthly cycles) and for the Risk Committee and the Supervisory Board of the Bank (in quarterly cycles).

#### The interest rate risk in the trading book

The purpose of the interest rate risk management in the trading book is to achieve financial performance, which is assumed in the financial plan for this area, with an acceptable Bank's exposure to this risk and minimizing its negative effects on instruments sensitive to interest rate fluctuations held in the trading book.

#### The interest rate risk ratios in the trading book

In order to monitor the interest rate risk in the trading book, the Bank applies:

- 1) the Value at Risk model (VaR) calculated with the confidence level of 99% based on daily volatility of interest rates from the last 250 working days that precede the analysis date;
- 2) BPV (i.e. sensitivity of securities and derivatives generating interest rate risk, in case of the interest rate fluctuation by  $\pm 1$  b.p.);
- 3) the system of limits;
- 4) stress tests.

In 2019, there were no significant changes in techniques of measuring interest rate risk in the trading book.

The value of interest rate VaR in the trading book and the impact of the stress test - parallel shift of IRS and BOND yield curves by  $\pm 200$  b.p. on the Bank's result on an annual basis, was as follows (provided are the following: the maximum, minimum and average values, and the value at the reporting date):

	10-day VaR			Stress tests $\pm 200$ b.p.	
	average	max	Min.	as at	as at
31-12-2019	422	612	177	355	-2,389
31-12-2018	361	1,082	41	351	-1,911

In order to verify the VaR model, the Bank performs a monthly back-testing calculated by comparing maximum losses arising from the model to actual gains and losses and theoretical performance fluctuations arising from revaluation of items. The results of back-testing on a monthly basis are presented in the reports prepared by the management.

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

- 1) limit of the 10-day VaR,
- 2) the BPV limit for instruments generating interest rate risk in the trading book applicable both through the day and at the end of the day, separately for debt securities items and IRSs, and jointly for these two instruments,
- 3) the maximum, two-day and retained monthly loss limits on assets in the trading portfolio.

Calculation and monitoring of the level of individual limits utilization is performed as per the balance of each working day, and with respect to the BPV limits - also during the day, and systematically reported to the management.

On a monthly basis, the Bank performs a stress-test analysis by examining the development of the interest rate risk level in the banking and trading books in case of materialization of extreme changes in risk factors.

In trading book, an impact of extreme situations is tested regarding: changes in market interest rates on Bank's result and volatility in interest rates during the 250-working-day period or correlation between the volatilities of interest rates on VaR results using both the historical and parametric methods.

For the purpose of stress tests, the following scenarios are applied by the Bank:

- 1) historical:
  - a) parallel shifts in interest rate curves (including fat tails and spread),
  - b) the bending of the interest rate curves,
  - c) change in the slope of the interest rate curves;
- 2) parametric:
  - a) parallel shifts in interest rate curves,
  - b) increase in volatility of interest rates
  - c) extremely adverse changes in correlation of interest rates.

Stress test scenarios are also performed under the assumption of changes in market liquidity and inability to close the position.

The results of this analysis show that where extremely unfavorable market conditions and increased Bank's positions in the instruments sensitive to the interest rate risk occur, the activities of the Bank in the banking and trading portfolio remain at a safe level.

The results of interest rate risk monitoring in the banking and in the trading books, along with the results of performed stress tests, are presented in the reports prepared for the Management Board and the ALCO on a monthly basis, and - on a quarterly basis - for the Supervisory Board of the Bank and the Risk Committee. In addition, results of the interest rate risk analysis in the trading book in the form of daily reports are provided to Members of the Bank's Management Board and ALCO and are presented on a weekly basis in reports prepared for the Liquidity and Market Risk Committee.



## 2.3. Foreign exchange risk

The foreign exchange risk is understood as the risk of impairment of assets, increase in the level of liabilities or a change in the financial result of the BOŚ Group due to sensitivity to changes in currency exchange rates. This risk is generated by DM BOŚ S.A. (in the trading and non-trading book) and in the Bank (mainly in the trading book).

The objective of the Bank with regard to foreign exchange risk management in the banking book is to abstain from keeping open individual positions. Foreign exchange exposures due to operations conducted within the framework of the banking book are systematically transferred to the trading book on the same day or on the following working day at the latest.

The main foreign exchange positions of the Bank are positions in PLN, USD, EUR and CHF.

The foreign exchange risk in the non-trading portfolio of DM BOŚ S.A. is due to depositing by DM BOŚ S.A. of funds in foreign currencies in accounts of foreign brokers, who engage in financial instrument purchase and disposal transactions on foreign stock exchanges as instructed by clients of DM BOŚ S.A. The foreign exchange risk in the non-trading book is also implied by positions related to operations of DM BOŚ S.A. at the Branch in the Czech Republic, which are not positions included in the trading portfolio. DM BOŚ S.A. has open foreign exchange positions in USD, EUR and CZK in the non-trading portfolio, and the foreign exchange risk in this portfolio is managed within the framework of the total foreign exchange position limit for the trading book and the non-trading book jointly.

The foreign exchange position based on activity of the Bank in the banking book, which has not been transferred on a given day to the trading book, is subject to control using limits for open foreign exchange positions in the banking book at the end of the day.

Foreign exchange risk in the trading book is generated both by the Bank and by DM BOŚ S.A. The foreign exchange risk in the trading book applied mostly to DM BOŚ S.A. and to a lesser extent - to the Bank. Open foreign exchange positions in the trading book of DM BOŚ S.A. are due to services rendered on behalf of clients in trade in derivatives and performance of services on the regulated market.

There is a standardized system for management of foreign change risk in the BOŚ Group, and the risk is calculated separately for the Bank and for DM BOŚ S.A.

### The foreign exchange risk measures

To monitor the foreign exchange risk on open foreign exchange positions in the trading book (balance sheet and off-balance sheet positions) at the Bank, like in the case of the interest rate risk in the trading book, the following are applied:

- 1) the Value at Risk (VaR) calculated with the confidence level of 99% based on daily volatility of foreign exchange rates from the last 250 working days that precede the analysis date,
- 2) the system of limits;
- 3) stress-tests results,

The values of foreign exchange VaR in the trading book of the Bank, DM BOŚ S.A. and the BOŚ Group and impact of the stress test scenario - decrease in foreign exchange rates of all currencies to PLN by 30% to the result of the BOŚ Group in annual periods were shaped as follows (providing the maximum, minimum and average value and the value as at the reporting date):

	10-day VaR						Stress tests of the BOŚ Group increase/decrease of foreign exchange rates by 30%
			Bank		DM	BOŚ Group	
	average	max	min	as at	as at	as at	as at
31-12-2019	213	575	5	133	3,804	3,767	-25,289
31-12-2018	184	820	6	35	1,657	1,672	-19,421

To verify the value at risk model, the Bank performs monthly back-testing analyses by comparing the maximum losses set using the VaR model with actual gains and losses and with theoretical fluctuations of the result arising from the positions' revaluation. The results of back-testing on a monthly basis are presented in the reports prepared by the management.

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



- 1) limit of the 10-day VaR,
- 2) limits of the amounts of total and individual positions in main foreign currencies (applicable both through the day and at the end of the day),
- 3) limits of the daily and continuous monthly loss due to foreign exchange transactions.

Limit utilization control is performed on every working day and with respect to the limits for the overall position and individual positions for the main currencies of the Bank also during the day. As part of value limits for foreign exchange positions, additional limits for client transaction handling are also monitored in the Bank during the day. Information on the level of utilization of limits is regularly reported to the management of BOŚ S.A.

Analyses show that the BOŚ Group's foreign exchange risk during the audited period remained at the moderate level.

Stress tests analysis is performed by the Bank on a monthly basis and it covers formation of the foreign exchange risk level in the event of materialization of extreme changes in risk factors. The Bank tests mainly the impact of extremely unfavorable changes in the exchange rates against PLN and cross currency pairs EUR/ USD and EUR/CHF on foreign exchange result and changes in exchange rates volatility during the 250-working-day period and correlation between the volatility of exchange rates on the level of VaR, using both historical and parametric methods.

For the purpose of stress tests, the following scenarios are applied by the Bank:

- 1) historical:
  - a) historical increase/decrease in exchange rates against PLN (including fat tails),
  - b) increase/decrease in exchange rates of cross currency pairs EUR/CHF and EUR/USD.
- 2) parametric:
  - a) increase/decrease in exchange rates against PLN by 30%,
  - b) increase in exchange rate volatility,
  - c) extremely adverse change in exchange rates correlation.

Stress test scenarios are also performed under the assumption of changes in market liquidity and inability to close the position.

The results of the stress test analysis show that in case of extremely unfavorable market conditions and increased exposure, the activities of the Bank in the field of foreign exchange risk remain at the safe level.

The results of analysis of the foreign exchange risk in the trading book in the form of daily reports are provided to Members of the Bank's Management Board and ALCO and are presented on a weekly basis in reports prepared for the Liquidity and Market Risk Committee, on a monthly basis in reports prepared for the Bank's Management Board and ALCO and on a quarterly basis - for the Supervisory Board of the Bank and Risk Committee.

## 2.4. Other market risks

Other market risks are the general risk and separate risks regarding prices of capital instruments, as well as the risk of commodities prices. These risks result from the impact of changes in prices of capital instruments and of commodities on the risk of asset impairment and the risk of increase in liabilities or a change in the Bank's financial result.

These risks occur mainly in the activity of DM BOŚ S.A. in the trading books.

Transactions on capital instruments carried out in DM BOŚ S.A. account relate to the activity of DM BOŚ S.A. as a market animator and in majority of cases they are closed at the end of day. Significant engagement in capital instruments is only noted in hedged transactions opened by DM BOŚ S.A. (arbitrage transactions), including those within short selling. Hedged (arbitrage) transactions consist of using a temporary price imbalance between two markets (i.e. between prices of derivative financial instruments and prices of underlying instruments). This risk is limited by total exposure limits for hedged (arbitrage transactions) and unhedged transactions. Monitoring of these limits is performed on the daily basis.

The risk of commodity prices occurs mainly within the OTC market, for transactions with customers of DM BOŚ S.A. and hedging transactions with Saxo Bank A/S, X-Trade Brokers Dom Maklerski S.A. or Interactive Brokers (UK) Ltd.

### 3. OPERATIONAL RISK AND NON-COMPLIANCE

#### 3.1. Operational risk

Operational risk is defined in the Bank as a risk related to the loss resulting from inadequate or failed internal processes, people and systems, or from external events, including also legal risk, taking into account operational risk events characterized by low frequency but huge losses. Operational risk does not cover the reputation risk and strategic risk.

The ongoing and systemic management of operational risk was made using a system built on qualitative and quantitative methods, focused mainly on prevention and reducing the Bank's exposure to the subject risk. In particular, it was reduced by:

- organizing processes in a manner reducing the number of operational risk events,
- monitoring the operational risk level items, in particular, the use of operational risk tolerance limits and operational risk appetite,
- periodic reviews of operational risk based on self-assessment process,
- gathering information in the operational risk events database used for monitoring operational risk as well as measuring and estimating losses arising from such events,
- monitoring the operational risk level based on the key risk indicator (KRI) methodology,
- periodic stress tests for potential operational risk events losses,
- monitoring the risk of cooperation with third parties, in particular regarding outsourcing,
- ongoing, efficient problems resolving arising from operational risk events so that they do not have a significant effect on the Bank's operations,
- regular operational risk reporting, in particular on the operational risk level and profile, the use of operational risk limits and the amount of losses arising from operational risk events.

Considering the level of development of operational risk management system, the Bank calculates the capital requirements arising from operational risk using the standard method.

As part of actions aiming at improving the organization of operational risk management of the Bank, in 2019, the amendment of Operational Risk Management Policy and Principles of BOŚ S.A. was made, focusing i.e. on verification of effectiveness regarding the operational risk management system. Amendments were also introduced to the rules of the purchasing process of the Bank with regard to bank outsourcing, and works are in progress in the field of implementation of the EBA guidelines.

In the second half of 2019, the Bank, in cooperation with an external company, organized a training for the managerial staff and members of the Management Board of the Bank on the operating risk management system. Moreover, every new employee of the Bank is subject to a compulsory e-learning training in operating risk on the rules of functioning of the database of operating risk incidents (OPRISK!) and the operating risk management system of BOŚ S.A.

In 2019, a number of tasks were performed in the area of organization of the operating risk management system, including: (1) establishing and approving the risk appetite and tolerance limits for year 2019, (2) periodic monitoring of utilization of the limits imposed, (3) development of the Operating Risk Map for year 2019 on the basis of self-assessment of organizational units of the Bank's Central Office, (4) stress tests were conducted for operating risk, (5) assessment of significance of subsidiaries of the Capital Group BOŚ S.A. was conducted in terms of operating risk generated.

Information on operational risk is part of periodic management information addressed to Operational Risk Committee, Bank's Management Board, Supervisory Board and Risk Committee (in cooperation with the Supervisory Board).

In 2019, there were no operational risk events that would have a material effect on security of the Bank's and Group's operations. The operational risk events were investigated and measures aimed to reduce the potential losses were implemented by the Bank.

#### 3.2. Non-compliance risk

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

The Bank ensures compliance of its operations with legal provisions, internal regulations and market standards through the control function (applying control mechanisms and monitoring of compliance with

these mechanisms) and non-compliance risk management that comprises identification, assessment, control and monitoring of the non-compliance risk and reporting on these matters to the Management Board and Supervisory Board.

The basic principles to ensure compliance in the Bank as a part of the control and non-compliance risk management process have been defined in the Compliance Policy of Bank Ochrony Środowiska S.A., elaborated by the Management Board and approved by the Supervisory Board, as well as in the executive acts to this policy, including the following:

- Principles regarding non-compliance risk management in the Bank Ochrony Środowiska S.A.,
- Principles of carrying out internal control in Bank Ochrony Środowiska S.A.

The Bank has a separate and independent compliance unit that reports directly to the President of the Management Board of the Bank, which is responsible for fulfillment of duties within the control function and for organization of the non-compliance risk management process.

The goals of non-compliance risk management in the Bank:

- identification, assessment and control of the possible negative effects resulting from non-compliance with laws, internal regulations and market standards, in particular including legal sanctions, financial losses or loss of reputation which might be the consequence of non-compliance with laws, internal regulations and market standards,
- strengthening of the Bank's image as an institution that acts in accordance with law, honest, reliable, environmentally friendly, reliable and business responsible.

The Bank distinguishes the following key areas to ensure compliance:

- preventing any activity non-compliant with the law in the Bank, including counteracting of money laundering and financing of terrorism,
- information protection,
- implementation and monitoring of compliance with ethical standards,
- accepting or giving benefits and gifts,
- carrying out advertising and marketing activities,
- offering products,
- customer complaints,
- managing conflicts of interest.

In 2019, no events that would significantly affect the level of non-compliance risk were noted, the Bank focused its operations on preventing the risk of non-compliance.

## **IV. ADDITIONAL INFORMATION**

### **1. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT**

Financial resources management is the key element of the Bank's operating activities. It includes shaping balances and structure of the balance sheet items i.e. assets, liabilities, as well as off-balance sheet items so as to allow achieving a stable income stream whilst maintaining required level of business security. The policy of assets and liabilities management in the Bank is being developed by the ALCO and Bank's Management Board.

The core ability of the BOŚ S.A. to repay liabilities is measured by its liquidity and capital adequacy ratio. The Bank made decisions in advance aimed at acquiring long-term finance and increasing stability of its deposit base that ensured the required balance sheet structure and facilitated performing the Financial Plan.

With the current maturity structure of assets and liabilities, the Bank is able to finance its liabilities and further growth. In the period under analysis, the growth was carried out, while a safe solvency ratio was maintained.

The quality of balance management, which is strictly linked with realization of liabilities of the Bank is also influenced by the manner of managing the interest rate risk and the currency risk. The manner of managing currency and interest rate risk and monitoring them show the Bank's ability to repay the Bank's liabilities at the appropriate level.

## **2. DEPENDENCE ON PARTNERS**

During the period under analysis, the Group's entities did not have clients whose share in the sales revenue reached 10% or more.

## **3. RELATED-PARTY TRANSACTIONS**

Related party transactions have been described in Note 49 of the Additional Information to the Consolidated Financial Statements of the BOŚ S.A. Group for the 12-month period ended 31 December 2018.

The Bank or its subsidiaries entered no transactions with related parties on the basis on any terms other than market conditions.

## **4. SEASONAL OR CYCLICAL NATURE OF ACTIVITY**

The business operations of BOŚ S.A. do not involve significant events that would be subject to seasonal or cyclical variations.

## **5. INFORMATION ABOUT THE BANK'S AGREEMENTS**

### **5.1. Significant agreements**

On 3 January 2019 (current report 1/2019), a credit contract was concluded, in connection with construction of an office building "Mennica Legacy Tower" in Warsaw, with MENNICA TOWERS GGH MT Sp. z o.o. komandytowo-akcyjna under a consortium - (mBank SA, Santander Bank Polska SA, Bank Ochrony Środowiska SA) for the total amount of EUR 131.5, for the purpose of a construction and investment loan and PLN 28 of loan for VAT purposes. The share of BOŚ S.A. in the construction loan is EUR 43.8 million and 12 million for VAT (the total amount including VAT is above PLN 200 million). Described more extensively in clause I. 2.

### **5.2. Agreements with the Central Bank and regulatory bodies**

In 2019, the Bank has not concluded any new agreement with the Central Bank and regulatory bodies.

### **5.3. Agreements for audit of financial statements**

#### **1. Body selecting the independent auditor**

The audit firm was selected by the Supervisory Board of Bank Ochrony Środowiska S.A., which on 22 May 2019 adopted Resolution 23/209 on selection of the independent auditor to examine the annual financial statements of BOŚ S.A. and annual consolidated financial statements of the Capital Group BOŚ S.A. and to conduct a review of semi-annual financial statements of BOŚ S.A. and semi-annual consolidated financial statements of the Capital Group BOŚ S.A. for years 2019-2021.

#### **2. Information of the Management Board of the Bank on selection of audit firm**

Accordingly with § 70 section 1 clause 7 and § 71 section 1 clause 7 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information..., on the basis of the Statement of the Supervisory Board of Bank Ochrony Środowiska S.A. concerning selection of the audit firm to conduct a review of the annual separate financial statements and consolidated financial statements for year 2019 in accordance with the legislation in force, including legal provisions on selection and procedure of selection of the audit firm, the Management Board of the Bank hereby informs that the audit firm, Mazars Audyt Sp. z o.o., conducting a review of the annual separated financial statements and the consolidated financial statements for year 2019, was selected in accordance with the legal provisions in force, including those on selection and procedure of selection of the audit firm, and that:

- a) the audit firm and members of the team performing the audit met the requirements allowing them to prepare an impartial and independent report on audit of the annual separate financial statements and consolidated financial statements in accordance with the legal provisions in force, standards of the profession and rules of professional ethics,

- b) legal provisions in force, associated with rotation of auditing firms and the key independent auditor and the mandatory withdrawal periods,
- c) Bank Ochrony Środowiska S.A. has developed a policy of selection of audit firms and a policy on additional services other than audit, rendered on behalf of the Bank by the audit firm, entities related to the audit firm or members of its network, including services conditionally exempt from the prohibition to be rendered by the audit firm.

## 2. Contracts with the independent auditor

Agreement of 12 July 2019 signed with Mazars Audyt Sp. z o.o.

The scope of the agreement was to review and audit the interim financial statements of the Bank and the BOŚ S.A. Capital Group for the years 2019-2021.

Agreement of 12 July 2017 signed with Mazars Audyt Sp. z o.o.

The scope of the agreement was to review and audit the interim financial statements of the Bank and the BOŚ S.A. Group for the years 2017-2018.

## 5.4. Remuneration of the entity authorized to audit financial statements

Remuneration of the entity authorized to audit financial statements - MAZARS AUDYT Sp. z o.o. paid or payable for financial year 2019:

### 1. BOŚ S.A.

Remuneration of the entity authorized to audit financial statements - MAZARS AUDYT Sp. z o.o. paid or payable for financial year 2019:

Review of the report for the 1st half of year 2019	PLN 141 thousand
Audit of the annual financial statements for year 2019	PLN 396 thousand
Other services	PLN 0 thousand

### 1. Dom Maklerski BOŚ S.A.

Audit of the financial statements	PLN 54 thousand
Review of the financial statements	PLN 28 thousand
Storage of assets	PLN 12 thousand
Other remuneration on behalf of the audit firm	PLN 0 thousand

### 2. BOŚ Leasing EkoProfit S.A.

Audit of the financial statements	PLN 48 thousand
Review of the financial statements	PLN 23 thousand
Other	PLN 0.1 thousand

Remuneration of the entity authorized to audit financial statements - MAZARS AUDYT Sp. z o.o. paid or payable for financial year 2018:

### 3. BOŚ S.A.

Audit of the annual financial statements of BOŚ S.A. for year 2018	PLN 327 thousand
Review of the report of BOŚ S.A. for the 1st half of year 2018	PLN 136 thousand
Other	PLN 0 thousand

### 4. Dom Maklerski BOŚ S.A.

Audit of the financial statements	PLN 45 thousand
Review of the financial statements	PLN 25 thousand
Storage of assets	PLN 12 thousand
Other remuneration on behalf of the audit firm	PLN 0 thousand

### 5. BOŚ EkoProfit S.A. (together with cost of audit of statements of acquired companies: BOŚ Capital sp. z o.o. and BOŚ Ekosystem sp. z o.o.) and subsidiary MS Wind sp. z o.o.

Audit of the financial statements	PLN 47 thousand
Review of the financial statements	PLN 48 thousand
Other	PLN 0 thousand



## **6. UNUSUAL FACTORS AND EVENTS**

In 2019, in BOŚ S.A., no other significant events took place that would influence the assessment of its human resources, assets, financial condition, financial result and changes in these and for assessment of capability of the Company to settle its liabilities.

## **7. COURT PROCEEDINGS**

### **Information on pending court proceedings concerning credits and loans denominated in foreign currencies**

As at 31 December 2019, there were 94 lawsuits pending against the Bank, concerning credits and loans denominated mainly to CHF. The value of the object of litigation is PLN 15.6 million.

In relation to the portfolio of denominated loans and credits, there are no proceedings against the Bank based on the act of 17 December 2009 on pursuing claims in collective proceedings.

### **Lawsuits - total**

As at 31 December 2019, Bank Ochrony Środowiska S.A. was:

- a plaintiff in 400 lawsuits for a total amount of: PLN 76.3 million.
- a defendant in 46 lawsuits for a total amount of: PLN 46.5 million.

As at 31 December 2019, the Bank was not engaged in significant proceedings before any courts, arbitrary bodies or public administration bodies, pertaining to liabilities and receivables of the issuers, that is, proceedings of value equivalent at least to 10% of its equity.

## **8. CHANGES IN THE KEY MANAGEMENT PRINCIPLES**

In 2019, there were no changes in basic principles of management in Bank.

## **9. INFORMATION ABOUT THE DIVIDEND**

No dividends were paid or declared in year 2019.

The Ordinary General Meeting of Bank Ochrony Środowiska S.A. allocated the net profit of the Bank generated in the period from 1 January until 31 December 2018 in the amount of PLN 65,012,670.65 in full to supplementary capital.

## **10. VALUE OF COLLATERALS ADOPTED BY THE BANK**

At the end of December 2019, the value of significant collaterals, excluding blank promissory notes and assignment of insurance policy related to real estate or movable property, amounted to PLN 24,770.9 million. Real estate mortgages remain the most important type of collateral (PLN 12,263.4 million, i.e. 49.5%). Pledges of value of PLN 8,515.3 million accounted for 34.4% of all collaterals. Sureties and guarantees totaled PLN 2,449.5 million and represented 9.9% of all collaterals. Transfer of receivables from business partners from OECD countries amounted to PLN 947.2 million (3.8% of all collaterals). Other types of collateral do not exceed 1% of the total value of collateral.

## **11. SUBSEQUENT EVENTS**

On 18 February 2020, the Bank received the decision of the General Inspector for Financial Information on initiation of ex officio proceedings in association with the inspection conducted between 25 and 29 March 2019 to impose an administrative penalty due to a failure to meet the obligations based on the act of 01 March 2018 on counteracting money laundering and financing of terrorism (Journal of Laws of 2019 item 115 as amended). As at the date of preparation of the financial statement, the proceedings of the General Inspector for Financial Information have not been concluded and thus the result of the proceedings remains unknown.



Due to the recorded cases of the coronavirus infection, the BOŚ Group conducts an ongoing analysis of the economic conditions in Poland and other countries. Proper action depending on the scale of spreading of the coronavirus and its effect on the economic situation will be taken by the BOŚ Group in the subsequent reporting periods.

## **V. STATEMENT ON IMPLEMENTATION OF CORPORATE GOVERNANCE PRINCIPLES**

(This statement has been prepared in accordance with requirements of § 70.1 section 6 clause 5 of the Regulation of the Minister of Finance of 29 March 2018 regarding current and periodical information submitted by issuers of securities and the conditions for recognition as equivalent of the information whose disclosure is required under the laws of a state which is not an EU Member State).

### **1. CORPORATE GOVERNANCE RULES**

#### **1.1. Indication of corporate governance rules applicable to BOŚ S.A. and the place, in which it has been made available to the general public.**

In 2019, BOŚ S.A. followed the corporate governance rules contained in the "Good Practices of Companies Listed on the WSE", constituting an appendix to Resolution 26/1413/2015 of the Supervisory Board of Warsaw Stock Exchange of 13 October 2015, with the exception of rules described in clause 1.2.

The scope of application of governance rules has been specified in Resolution 20/2016 of the Ordinary General Meeting of BOŚ S.A. of 23 June 2016 on the scope of application by BOŚ S.A. of the governance rules contained in "Good Practices of Companies Listed on the WSE 2016". Information on application by the Bank of recommendations and principles contained in the document "Good Practices of Companies Listed on the WSE 2016" was made available to the general public in a current report of 24 June 2016.

Both the text of "Good Practices of Companies Listed on the WSE 2016" and information on compliance of the Bank with recommendations and rules contained therein can be found in the "Investor Relations" section on the Web page of the Bank <https://www.bosbank.pl/informacje-korporacyjne/relacje-inwestorskie/lad-korporacyjny>, which also contains "Statements on application of corporate governance by BOŚ S.A." for the previous years.

In 2019, BOŚ Bank S.A. complied with the rules contained in:

- "Financial Market Good Practices", specified in Resolution 99/08 of the Polish Financial Supervision Authority of 18 March 2008,
- "Good Banking Practice Principles" specified in the Resolution of the General Meeting of Polish Banks of 18 April 2013.

Moreover, in accordance with Resolution 218/2014 of the Polish Financial Supervision Authority of 22 July 2014, "Principles of Corporate Governance for Supervised Institutions" were approved for use by individual governing bodies of the Bank:

- The Management Board of BOŚ S.A. - by Resolution 108/2018 of 8 May 2018 on acceptance of the "Principles of Corporate Governance for Supervised Institutions", issued by the Polish Financial Supervision Authority;
- The Supervisory Board of BOŚ S.A. - by Resolution 31/2018 of 16 May 2018 on the scope of application by the Supervisory Board of BOŚ S.A. of the "Principles of Corporate Governance for Supervised Institutions", issued by the Polish Financial Supervision Authority;
- the General Meeting of BOŚ S.A. - by Resolution 28/2018 of the Ordinary General Meeting of Bank Ochrony Środowiska S.A. of 19 June 2018 on adopting by Bank Ochrony Środowiska S.A. the "Principles of Corporate Governance for Supervised Institutions", issued by the Polish Financial Supervision Authority.

The information on adoption by Bank Ochrony Środowiska S.A. of the “Principles of Corporate Governance for Supervised Institutions”, issued by the Polish Financial Supervision Authority has been made available on the Web page of the Bank in the “Investor Relations” section.

## **1.2. Information on non-application of selected corporate governance rules contained in the “Good Practices of Companies Listed on the WSE 2016” and “Principles of Corporate Governance for Supervised Institutions” issued by the PFSA**

BOŚ S.A. informed of non-application of the following corporate governance rules introduced by Resolution 26/1413/2015 of the Supervisory Board of Warsaw Stock Exchange of 13 October 2015:

- I.Z.1. The Company runs a corporate Web page and publishes, in a readable form and in a separate location, the following information apart from information required by law:  
I.Z.1.15. information containing a description of the diversity policy of the Company in relation to the Company authorities and its key managers; the description should include such components of the diversity policy as gender, education field, age, professional experience, as well as the purposes of the diversity policy adopted and the mode of its implementation in a given reporting period; if the Company has not adopted and implemented a diversity policy, it publishes a justification for this decision on its Web page.

Explanation: diversity principles in relation to employees (including key managers) have been contained in the Work Regulations of BOŚ S.A., however, no such tool has been provided for authorities of the Company.

In performance of provisions of clause I.Z.1.15 of “Good Practices of Companies Listed on the WSE 2016”, the justification for non-application of principle I.Z.1.15 by BOŚ S.A. has been published on the Web page of the Bank [www.bosbank.pl](http://www.bosbank.pl) in the “Investor Relations” section.

- IV.Z.2. If justified by the shareholding structure of the Company, the Company ensures a publicly available real-time transmission of the general meeting.

Explanation: Principle IV.Z.2 is not applied by the Bank due to its shareholding structure, as well as technical and organizational issues. In the opinion of the Bank, the current rules of participation in general meetings enable shareholders to effectively execute all their rights attached to shares and secure the interests of all shareholders. In the future, in the case of popularization of this form of shareholder participation in general meetings among listed companies, the Bank will consider application of this corporate governance rule.

In 2019, the Bank applied all of the “Principles of Corporate Governance for Supervised Institutions” published by the PFSA with the exception of § 8.4, stating as follows: “A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting.”

The Bank has analyzed the possibility of participation of shareholders in general meetings using electronic communication tools as illustrated by the example of the Ordinary General Meeting of the Bank in year 2019. Taking into account the shareholding structure, as well as logistic and technical problems, the Management Board of the Bank has maintained its position on departure from application of § 8 section 4 of the Principles of Corporate Governance. Therefore, the Bank conduct real-time transmissions of general meetings, during which the Shareholders - using electronic communication tools - could speak, as well as vote, being away from the place of the meeting. The Articles of Association of the Bank, as well as the Regulations for General Meetings of the Bank, do not provide for participation of Shareholders in general meetings using electronic communication tools. In the future, in the case of popularization of this form of shareholder participation in general meetings among listed companies, the Management Board of BOŚ S.A. will consider application by the Bank of this corporate governance rule.

The Bank ensures transparency of its information policy with regard to the course of general meetings by recording meetings and publishing the audio recordings on its Web pages in the General Meeting tab.

## 2. INTERNAL CONTROL

### 2.1. Description of the basic characteristics of internal control and risk management systems applied in BOŚ S.A. with respect to the process of preparing financial statements

#### The internal control system

BOŚ S.A. has a Bank management system - approved by resolutions of its Supervisory Board - which includes an adequate and efficient internal control system. The internal control system supports the Supervisory Board, the Internal Audit Committee, the Management Board and employees of the Bank in proper, effective and efficient performance of their duties.

The internal control system of BOŚ S.A. encompasses a number of strictly correlated multidimensional systems for management and handling of all areas of activity of the Bank, and it is permanently and coherently embedded into the Bank management system as a whole.

The internal control system of the Bank is adapted to the organizational structure of BOŚ S.A. and includes organizational units of the Bank and its subsidiaries. The risk management and internal control system of the Bank is organized at three independent levels:

- the first level consists of risk management in the Bank's operation,
- the second level consists of at least:
  - risk management by employees occupying dedicated positions or working in dedicated organizational units, independent of risk management in operations,
  - activity of the compliance unit.
- the third level consists of activity of the internal audit unit.

In the framework of the so-called three-level structure of the internal control system, the Bank has:

- the control function, which is implemented at all three levels, in particular, the first level, that is, the Bank's operations. The control function is aimed at ensuring compliance with control mechanisms and encompasses positions, groups of employees and organizational units responsible for performance of tasks assigned to this function,
- the compliance unit functioning on the second level, apart from risk management by employees occupying dedicated positions or working in dedicated units. The aim of the compliance unit is to identify, assess, control and monitor the risk of the Bank's operation being inconsistent with the law, internal regulations and market standards, and to provide reports in this regard,
- the internal audit unit performing tasks on the third level. The internal audit unit is supposed to examine and assess, in an independent and impartial manner, the adequacy and efficiency of the risk management system and the internal control system, excluding the internal audit unit.

Effectiveness of the internal control system depends on effective functioning of each of the levels listed.

The control mechanisms existing in the Bank are used to limit probability of risk materialization, detect and adjust adverse events that have already occurred and eliminating the consequences of such events.

The Bank has put in place mechanisms to ensure independence of the internal audit unit and the compliance unit, which have been described in the Resolution of the Management Board and the Supervisory Board on the "Internal control system in BOŚ S.A."

The organizational structure of the Bank includes an organizational unit that performs the non-compliance risk management function through specific tasks, in particular: development of the non-compliance risk management policy and rules, organization of the non-compliance risk management system, identification, assessment, control and monitoring, as well as reporting of the non-compliance risk, as well as cooperation with entities of the Capital Group in the field of non-compliance risk management. In terms of organization, it is directly subordinate to the President of the Management Board of the Bank.

There is an internal audit unit at the Bank, which assesses implementation of processes and contributes to their improvements, in particular, business processes, risk management and managerial processes, as well as those embedded into control mechanisms. The internal audit unit conducts, among other things, a periodic verification of mechanisms functioning in the Bank and the associated internal control procedures. The task of the internal audit unit is independent and impartial examination and assessment of adequacy and effectiveness of the risk management system and the internal control system of the Bank (excluding the external audit unit) and its subsidiaries. The results of verification and research conducted by the internal audit unit are presented to the Management Board of the Bank, the Internal Audit Committee and the Supervisory Board as a part of annual information on efficiency of the internal control system.

Internal audit, reporting directly to the Chairman of the Management Board of the Bank, is an integral and independent component of the Bank's internal control system. Substantive supervision of the internal audit unit is exercised by the Internal Audit Committee. The task of the internal audit unit is independent and impartial examination and assessment of correctness, adequacy and effectiveness of the risk management system and the internal control system related to operations of the Bank and its subsidiaries.

In performance of its tasks, the internal audit unit operates in accordance with legal provisions and internal regulations of the Bank, as well as on the basis of good practices contained in the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and the Code of Ethics of the Institute of Internal Auditors, established by the IIA.

### **3. SHAREHOLDING AND RIGHTS ATTACHED TO SHARES**

#### **3.1. Shareholders holding directly or indirectly at least 5% of votes at the General Shareholders' Meeting of the Bank**

The following Shareholders had at least 5% of the total number of votes and share in capital:

- The National Fund for Environmental Protection and Water Management - holding 53,951 960 shares, which represent 58.05% of the share capital and total number of votes during the General Meeting.
- Polish Enterprises Closed-End Investment Fund for Non-Public Assets Management - holding 8 888 000 shares, which represent 8.61% of the share capital and total number of votes during the General Meeting.
- Directorate General of State Forests Management - holding 5 148 000 shares, which represent 5.54% of the share capital and total number of votes during the General Meeting.

The total number of shares and votes at the General Meeting of BOŚ is 92,947,671. All shares are ordinary bearer shares with the par value of PLN 10 each.

#### **3.2. Treasury shares**

As at 31 December 2019, the Bank held 37,775 own shares, which represent 0.04% of the share capital and 0.04% of the total number of votes at the General Meeting of the Bank, including:

- 33,095 shares, which the Bank acquired in 2012 as part of stabilization activities related to the issuance of shares of P series. The shares listed above represent 0.04% of the share capital of the Bank and the overall number of votes at the General Meeting of the Bank; at the same time, according to provisions of the Code of Commercial Companies, the Bank is not authorized to exercise the voting right based on these shares,
- 4,680 shares, which represent 0.01% of the Bank's share capital and total number of votes at the General Meeting of the Bank, acquired by the Bank in the period between 22 June and 06 July 2015 during stock exchange sessions on the prime market of WSE. These shares were acquired on the basis of Resolution 34/2015 of the General Meeting of BOŚ S.A. dated 10 June 2015 regarding share repurchase Program of BOŚ S.A., in order to offer them to the Bank's employees holding managerial positions and having a material impact on the risk profile of the Bank. Due to the existence of circumstances defined in PFSA's resolution no. 258/2011, and the variable remuneration components policy concerning employees holding managerial positions at BOŚ S.A., the Supervisory Board decided not to grant the members of the Management Board the variable remuneration for 2014, while variable remuneration for other employees holding managerial positions did not reach the threshold above which a part of the variable remuneration is paid out in shares. As a result, the shares acquired for this purpose were not allocated.

In accordance with provisions the Code of Commercial Companies, the Bank is not entitled to exercise the voting rights related to its own shares.

#### **3.3. Information on contracts relating to future changes in the shareholding structure**

The Bank has no information on agreements concerning any future changes in the shareholding structure.

### **3.4. Holders of special control rights attached to securities**

All shares of the Bank are equal and each share entitles to one vote at the General Shareholders Meeting and the same dividend rights.

### **3.5. Limitations to exercising of voting rights and to transfer of ownership of shares**

In accordance with the Bank's Articles of Association, in the event of pledging or granting the right of use a registered share, the pledgee and the pledger shall not be entitled to exercise the respective voting rights. At present, there are no registered shares in the Bank's share capital.

### **3.6. Rules of amending the Articles of Association of the Bank**

Amendments to the Articles of Association of the Bank are made by the General Meeting of the Bank. A resolution on amendment of the Articles of Association is passed by three fourths of all votes.

### **3.7. Description of the mode of action of the General Meeting and its basic scope of authorization and rights of shareholders and the manner of exercising of these rights**

The mode of convening, competences and the manner of operation of the General Meeting are specified in the Articles of Association of the Bank and the Regulations of the General Meeting:

- The General Meeting can be convened as the Ordinary or Extraordinary General Meeting.
- An Ordinary General Meeting is convened by the Management Board of the Bank within six months after the end of each fiscal year.
- The Supervisory Board has the right to convene the Ordinary General Meeting, if the Management Board has failed to convene it within the time limit required by law.
- The agenda of the Ordinary General Meeting includes:
  - consideration and approval of the statement of the Management Board on activity of the Bank and the financial statements for the previous fiscal year,
  - passing of a resolution on profit distribution or loss coverage,
  - discharging of members of governing bodies of the Bank on performance of their duties.
- The Extraordinary General Meeting can be convened as necessary by the Management Board on its own initiative or on request of the Supervisory Board or on request of shareholders representing at least one twentieth part of the share capital.
- The Supervisory Board has the right to convene the Extraordinary General Meeting if it finds such decision advisable.
- An Extraordinary General Meeting can be convened by shareholders representing at least one half of the share capital of the Bank or at least one half of all of its votes. Shareholders elect the chairperson of the Meeting.
- Convening of an Extraordinary General Meeting, as well as inclusion of specific items in the agenda of the nearest General Meeting can be demanded by shareholders representing at least one twentieth of the share capital of the Bank. Such demand must be submitted to the Management Board in writing or in electronic format. A request to add specific items to the agenda of the nearest General Meeting should be submitted no later than 21 days before the scheduled date of the General Meeting.
- A request to convene the General Meeting and to add specific items to its agenda, made by authorized entities, should be justified.
- Withdrawal from consideration of an item included in the agenda on request of shareholders or its removal from the agenda requires a resolution of the General Meeting, passed by the majority of 3/4 of all votes, upon the consent of all voters present during the General Meeting.

Competences of the General Meeting include in particular:

- consideration and approval of the statement of the Management Board on activity of the Bank and the financial statements of the Bank,
- consideration and approval of the statement of the Management Board on activity of the Capital Group



- of the Bank and the consolidated financial statements of the of the Capital Group of the Bank,
- passing of the resolution on profit distribution or loss coverage,
- consideration and approval of the report on activity of the Supervisory Board,
- discharging of members of governing bodies of the Bank of their duties,
- appointing and dismissal of members of the Management Board,
- passing of the policy of assessment of adequacy of candidates for members of the Supervisory Board and members of the Supervisory Board, as well as assessment of adequacy of candidates for members of the Supervisory Board and members of the Supervisory Board,
- amending of the Articles of Association of the Bank
- authorization of the Supervisory Board to approve the uniform text of the amended Articles of Association or to introduce significant editorial amendments as specified in the resolution of the General Meeting,
- passing of resolutions to raise or decrease the share capital,
- passing of resolutions to issue exchangeable bonds or bonds with pre-emptive right,
- decisions to establish or release funds, referred to in § 36 par. 1, of the Articles of Association of the Bank,
- passing of resolutions on combination, disposal or liquidation of the Bank,
- appointment of liquidators and determination of their remuneration,
- establishment of rules for determining remuneration of members of the Supervisory Board and the Management Board,
- determination of the Supervisory Board Members' remuneration;
- passing of resolutions concerning other matters as presented by the Management Board and the Supervisory Board or shareholders in accordance with the Code of Commercial Companies, the Banking Law Act and the Articles of Association of the Bank.

Participation in the General Meeting, validity of the General Meeting, mode of passing resolutions and voting:

- Shareholders may participate in a General Meeting in person or through the agency of their authorized plenipotentiaries.
- Powers of attorney for participation in the General Meeting should be issued in writing or in electronic format and attached to the minutes of the General Meeting.
- Electronic format of a power of attorney granted is considered to be a statement of the shareholder, contained in an integral text document, which allows for identification of the author of such statement.
- A shareholder may not, through an authorized plenipotentiary or in person, vote on resolutions concerning their liability to the Company of any kind, including discharge from duties to the Company and any litigations between such shareholder and the Bank. However, such shareholder, acting as an authorized plenipotentiary of another person, may vote on passing of resolutions that are of concern to them.
- Subject to cases referred to in the Code of Commercial Companies or the Articles of Association of the Bank, a General Meeting is valid regardless of the number of shares represented.
- Resolutions are passed by the ordinary majority of votes, unless provisions of the Code of Commercial Companies or the Articles of Association of the Bank provide for more strict voting rules.
- Voting during a General Meeting is open.
- A secret voting is ordered for elections and requests for dismissal of members of the Bank's governing bodies or liquidators, for charging them with liability, as well as in personal matters. Moreover, a secret voting is obligatory if demanded even by one of the shareholders present or represented during the General Meeting.
- The General Meeting may pass a resolution on revoking of secrecy of voting in matters relating to appointment of any committee by the General meeting.

A General Meeting is opened by the chairman or vice chairman of the Supervisory board, or another member of the Supervisory Board. If these persons are not present, the General Meeting is opened by the President of the Management Board or any other person appointed by the Management Board. The General Meeting elects the chairman of the Meeting from among persons authorized to participate in the General Meeting. Minutes of the General Meeting are prepared in accordance with provisions of the



Code of Commercial Companies.

Cancellation or change of date of the General Meeting take place in the same manner as its convening.

## **4. GOVERNING BODIES OF THE BANK**

### **4.1. General Meeting of the Bank**

Description of the mode of action of the General Meeting of the Bank and its basic scope of authorization and rights of shareholders and the manner of exercising of these rights has been provided in clause 3.7.

### **4.2. Supervisory Board of the Bank**

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

- 1) Wojciech Piotr Wardacki - Chairman
- 2) Andrzej Grzegorz Matysiak – Vice-Chairman
- 3) Emil Ślęzak – Secretary

Members:

- 4) Iwona Beata Duda
- 5) Janina Kazimiera Goss
- 6) Piotr Sadownik
- 7) Marian Szolucha
- 8) Dariusz Wasilewski

The 10th term of office of the Supervisory Board ended on 18 June 2019. The Ordinary General Meeting of the Bank appointed the Supervisory Board for the 11th term of office consisting of ten members:

As at 31 December 2019 composition of the Supervisory Board was as follows

- 1) Wojciech Wardacki – Chairman
- 2) Katarzyna Lewandowska – Vice-Chairman
- 3) Andrzej Matysiak – Secretary

Members:

- 4) Iwona Duda
- 5) Janina Goss
- 6) Ireneusz Purgacz
- 7) Radosław Rasała
- 8) Piotr Sadownik
- 9) Paweł Sałek
- 10) Emil Ślęzak

In association with resignation from the function of Vice-President of the Management Board by Mr. Konrad Raczkowski, Mr. Emil Ślęzak, Member of the Supervisory Board, was delegated in 2019 to temporarily act as a Member of the Management Board of the Bank (until 3 November 2019).

Until the date of preparation of this information, composition of the Supervisory Board has not changed.

### **The rules of operation of the Supervisory Board of the Bank**

In accordance with provisions of the Articles of Association of the Bank, the Supervisory Board consists of natural persons elected by the General Meeting for a joint term of office, with no less than 5 and no more than 11 members. The joint term of office of the Supervisory Board is three years. The number of terms of office is not limited. The Supervisory Board elects a chairman, a vice-chairman and a secretary from among its members.

Mandates of members of the Supervisory Board expire as of the date of the General Meeting approving the report on activity and the financial statements for the last full fiscal year of performing functions as a member of the Supervisory Board. Mandates of members of the Supervisory Board also expire due to their death, resignation or dismissal from the Board. Supervisory Board members can be dismissed prior to the end of their term of office and other persons can be elected in their place. In the case of dismissal, resignation or death of a member of the Supervisory Board during their term of office, until

the vacancy has been filled, the Board may continue to work, provided that it comprises of no less than 5 persons.

The Supervisory Board exerts continuous supervision of all fields of operation of the Bank. The Supervisory Board performs its duties collectively, however, it may delegate its members to perform specific supervisory duties independently.

In its activity - to the extent applicable to the supervisory body - the Supervisory Board complies with standards based on:

- corporate governance rules, specified in the “Good Practices of Companies Listed on the WSE”, issued by the Supervisory Board of the Warsaw Stock Exchange,
- the “Principles of Corporate Governance for Supervised Institutions”, issued by the Polish Financial Supervision Authority.

The Supervisory Board performs regular assessments of application by the Bank of the “Principles of Corporate Governance for Supervised Institutions”, including compliance with the independence criteria by its members, and the results of such assessments are made available on the Web page of the Bank and delivered to other governing bodies of the Bank.

Competences of Supervisory Board include in particular:

- approval of the strategy of action of BOŚ S.A. and the Bank’s annual financial plans,
- approval of the general acceptable risk level specified by the Management Board of the Bank and strategies for management of the Bank and risk management approved by the Management Board of the Bank,
- approval of the policy for estimation of internal capital and capital management,
- approval of the remuneration policy,
- approval of the compliance policy of the Bank,
- approval of the information policy rules of the Bank,
- approval of resolutions of the Management Board, concerning the Bank’s organizational structure, provided that the competences to create and liquidate organizational units of the Bank are within the scope of competences of the Management Board,
- informing the PFSA of composition and changes in composition of the Management Board immediately after it has been appointed or its composition has changed, as well as of Members of the Management Board, who, according to the structure of competences, are responsible in particular for risk management and the internal audit unit,
- assessment of the report of the Management Board on operations of the Bank and the financial statements for the previous fiscal year with regard to their compliance with the books, documents and the actual conditions and requests of the Management Board concerning profit distribution or loss coverages, as well as submission to the General Meeting of an annual written report on results of this assessment,
- assessment of the report of the Management Board on operations of the Capital Group of the Bank and the financial consolidated statements of the Capital Group for the previous fiscal year with regard to their compliance with the books, documents and the actual conditions, as well as submission to the General Meeting of an annual written report on results of this assessment,
- determination of conditions of employment, as well as conditions of legal relationships other than the employment relationship, for members of the Management Board of the Bank, subject to §10 clause 15 of the Articles of Association,
- approval of the regulations for granting credits, cash loans, bank guarantees or sureties to members of the Bank’s governing bodies and persons occupying managerial positions at the Bank, as well as other persons listed in art. 79 of the Banking Law Act,
- passing of resolutions concerning consent for granting credits, cash loans, bank guarantees or sureties to members of the Bank’s governing bodies and other persons listed in art. 79a of the Banking Law Act,
- approval of requests of the Management Board of the Bank concerning acquisition of stocks and shares in companies of nominal value exceeding in total with stocks and shares in these companies already owned by the Bank the equivalent of 5% of the share capital of the Bank, excluding shares of companies admitted to public trading,

- selection of the independent auditor to conduct an audit of the financial statements and other experts,
- supervision of introduction at the Bank of a management system, which consists of the risk management system and the internal control system, as well as assessment of adequacy and efficiency of these systems,
- assessment of periodic information on the banking risk level and the quality of management of this risk,
- assessment of periodic information on irregularities found and conclusions based on internal audits conducted, as well as activities conducted for the purpose of their elimination or implementation,
- approval of the mode of commencement and termination of the employment relationship with persons managing the internal audit unit and the compliance unit, as well as approval of remuneration of these persons,
- approval of the policy for assessment of adequacy of candidates for members and members of the Management Board, as well as assessment of adequacy of candidates for members and members of the Management Board,
- approval of the internal structure of competences of the Management Board,
- approval of the internal audit unit regulations (internal unit card) and approval of the internal unit plan;
- approval of regulations of the compliance unit and its annual action plans.

Moreover, the competences of the Supervisory Board include:

- establishment of employment relationships with members of the Management Board by concluding the proper contracts. The Supervisory Board may authorize the chairman of the Board to conclude such agreements on the terms and conditions approved in each individual case by the Board,
- preparation of an annual report on activity of the Board with a concise assessment of the Bank's condition (including assessment of the internal control system and the system for management of risks that are of significance for the Bank) for submission to the General Meeting for approval,
- analysis and assessment of information received from the Management Board on any issues significant from the perspective of the Bank's operations,
- supervision of functioning of the Bank's internal control and risk management systems, as well as the course of financial reporting, including:
  - appointment of the Internal Audit Committee, passing of the regulations to specify the organization and tasks of this Committee, as well as its composition,
  - approval of the Bank's internal regulations, concerning in particular: the functioning of the Bank's internal control system, functioning of the risk management system in the Bank and management of individual types of banking risk,
  - analysis and assessment of periodic reports presenting the results of the internal audits conducted,
  - analysis and assessment of periodic information on effectiveness of the internal control system,
  - analysis and assessment of periodic reports on risks associated with the operations conducted and the modes of management of these risks,
  - analysis and assessment of annual reports of the Management Board on operations of the Bank and its Capital Group,
  - analysis and assessment of annual financial statements of the Bank and its Capital Group, as well as information from the auditor, concerning the course and results of audits of these statements,
- appointment of the Remuneration and Nomination Committee, passing of the regulations to specify the organization and tasks of this Committee, as well as its composition,
- appointment of the Ecology Committee, passing of the regulations to specify the organization and tasks of this Committee, as well as its composition,
- appointment of the Risk Committee, passing of the regulations to specify the organization and tasks of this Committee, as well as its composition,
- consideration of applications of the Management Board, concerning the intention of the Bank to enter into significant contracts/ transactions with related entities, with the exception of typical transactions

conducted in accordance with market terms and conditions within the framework of business operations with a related entity, in which the Bank holds a majority of share capital,

- development of the annual plan of work of the Supervisory Board,
- supervision of compliance of the Bank with its obligations related to acts referred to in art. 70 section 2 of the act on trade in financial instruments.

Meetings of the Supervisory Board are convened by the chairman as necessary, at least once in every quarter.

Members are notified of the time, place and agenda of the Board meeting in writing, at least 7 days prior to the meeting date, at the same time receiving the materials to be included in the agenda.

Requests for convening of a Board meeting can be submitted to the chairman by all members of the Supervisory Board, as well as the Management Board of the Bank. In such case, the Chairman of the Board convenes a meeting within two weeks from receipt of the request. The Chairman of the Supervisory Board - on a justified request of a Supervisory Board member, the president of the Management Board or the Management Board of the Bank, as well as on their own initiative - may convene a Board meeting urgently, specifying the time, place and agenda of the meeting.

The Supervisory Board considers matters included in the agenda and makes decisions by passing resolutions. Resolutions of the Supervisory Board may be passed, if at least one half of all members are present, including the chairman or the deputy chairman, and all of its members have been invited.

Resolutions of the Supervisory Board on appointment and dismissal of the Management Board members are passed by 2/3 of all votes. Other resolutions of the Supervisory Board - unless the legal provisions in force state otherwise - are passed by an ordinary majority of votes. In the event of equal split of votes, the Chairman's vote prevails.

Members of the Supervisory Board may participate in passing resolutions (except for voting on any personal matters and those introduced into the agenda during the Board meeting) in writing through the agency of other Board members or using remote communication tools.

Under exceptional circumstances, the Supervisory Board may adopt resolutions apart from meetings, in writing or by means of remote communication. A resolution is valid, if all members of the Board have been notified of the content of the draft resolution and at least one half of all members have voted, including the chairman or the deputy chairman.

The first meeting of the Supervisory Board in a new term of office is convened by the president of the Management Board of the Bank. The objective of the first meeting of the Supervisory Board in a new term of office is to set up the Board.

The detailed competences, rules of functioning and tasks of the Board have been specified in §§ 17 - 20 of the Articles of Association of the Bank and in the Regulations of the Supervisory Board (these documents are available on the Web page of the Bank [www.bosbank.pl](http://www.bosbank.pl) in the "Investor Relations" section).

The Supervisory Board of the Bank appoints from among its members the Internal Audit Committee, the Remuneration and Nomination Committee, the Ecology Committee and the Risk Committee. The Board members may also form other committees.

### **The Internal Audit Committee**

At the Bank, there is the Internal Audit Committee, appointed on the basis of resolution of the Supervisory Board, which exerts direct supervision over the internal audit unit and monitors the adequacy and efficiency of the internal control system, including the internal audit unit and the compliance unit.

The Internal Audit Committee is a consultative body, which supports the Supervisory Board in the field of the Bank management system, in particular, the internal control system and the course of financial reporting and performance of financial audit activities.

In 2019, the Committee performed the tasks defined as belonging to the Audit Committee, among others, in the following documents:

- the Act of 11 May 2017 on auditors, audit firms and public oversight,
- the Articles of Association of Bank Ochrony Środowiska S.A.
- Resolutions of the Bank's Supervisory Board.

Moreover, in year 2019, the Internal Audit Committee followed in its activity the guidelines contained in:

- 1) Recommendation H of the Polish Financial Supervision Authority on the internal control systems of banks,
- 2) Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of internal capital assessment in banks,
- 3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities,
- 4) Good Practices of Companies Listed on the WSE 2016,
- 5) Recommendations and guidelines of the PFSA on functioning of the Audit Committee,
- 6) Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive,
- 7) Act of 29 July 2005 on trade in financial instruments (Journal of Laws of 2017, item 1768 as amended) with secondary legislation, including, in particular, the regulation of the Minister of Finance of 29 May 2019 on specific technical and organizational conditions for the investment companies, banks, as referred to in art. 70. point 2 of the Act on Trade in Financial Instruments, and trust banks (Journal of Laws of 2018, item 1111).

The main tasks of the Internal Audit Committee include in particular:

- monitoring of:
  - the financial reporting process,
  - efficiency of internal control systems and risk management systems, as well as internal audit, including efficiency of financial reporting,
  - performing of financial audit tasks, in particular, audits conducted by audit firms, taking into account all conclusions and findings of the Audit Supervision Committee based on inspections conducted at audit firms,
- control and monitoring of independence of the auditor and auditor firm, in particular, if any services other than audit are rendered by the audit firm on behalf of the Bank,
- informing the Supervisory Board of results of the audit and clarifying how the audit has contributed to credibility of financial reporting of the Bank, as well as the role of the Committee in the audit process,
- assessment of independence of the auditor and granting consent to performance by the auditor of approved services other than financial audit.
- development of the policy for selection of the audit company to conduct the audit,
- development of the policy of rendering of approved services other than audit by the audit firm conducting the audit, by entities associated with this audit firm and by a member of the network of the audit firm,
- specification of the procedure of selection of the auditing firm by the Bank,
- substantive supervision of activity of the internal audit unit, in particular, supervision of proper placement of the internal audit unit in the organizational structure of the Bank, allowing it to retain independence of action in accordance with the supervisory regulations.

#### **Composition of the Committee and its changes in the last fiscal year**

In 2019, the function of the Chairman of the Internal Audit Committee was performed at all times by the Chairman of the Supervisory Board of the Bank. Composition of the Internal Audit Committee throughout the year underwent changes, that is:

- 1) from 1 January 2019 until 1 July 2019, on the basis of Resolution 3/2018 of the Supervisory Board of the Bank of 21 February 2018, the composition of the Internal Audit Committee was as follows:
  - Wojciech Wardacki – Chairman of the Committee,
  - Iwona Duda- Deputy Chairman of the Committee,
  - Emil Ślęzak - Member of the Committee,
  - Marian Szolucha - Member of the Committee.
- 2) from 2 July 2019 until 31 December 2019, on the basis of Resolution 30/2019 of the Supervisory Board of the Bank of 2 July 2019, the composition of the Internal Audit Committee was as follows:
  - Wojciech Wardacki – Chairman of the Committee,
  - Emil Ślęzak - Deputy Chairman of the Committee,
  - Iwona Duda- Member of the Committee,
  - Katarzyna Lewandowska – Member of the Committee,
  - Ireneusz Purgacz - Member of the Committee.



The Chairman and Members of the Internal Audit Committee submitted a statement to the Bank in accordance with the act of 11 May 2017 on independent auditors, auditing firms and public supervision, informing of their compliance with requirements of:

- 1) qualifications and independence criteria,
- 2) knowledge and skills in the field of accounting or audit of financial statements,
- 3) knowledge and skills in the field of banking.

On the basis of Resolution 27/2019 of 18 June 2019, the Supervisory Board of the Bank delegated a Board member, Mr. Emil Ślęzak, until no later than 18 September 2019, to act temporarily as a Member of the Management Board of the Bank.

In 2019, meetings of the Internal Audit Committee were convened as necessary, however, at least once in every quarter. In 2019, there were 10 meetings of the Internal Audit Committee. In association with Resolution 27/2019 of the Supervisory Board of 18 June 2019, Mr. Emil Ślęzak did not participate in three meetings of the Committee, held from July until September 2019, as a Deputy Chairman of the Committee, but as a Vice President of the Management Board of the Bank.

### **The Risk Committee**

On 7 January 2016, the Supervisory Board adopted Resolution 9/2016, appointing the Risk Committee, which consisted of Members of the Supervisory Board of the Bank. The Risk Committee supports the Supervisory Board in supervision of risk. The Committee performs the tasks provided for in the Act of 29 August 1997 - Banking Law Act (JoL 2019.2357, that is, of 2019.12.05) in the Articles of Association of the Bank and in resolutions of the Supervisory Board.

Performing its main tasks, the Committee in particular:

- 1) issues comprehensive opinions on the current and future readiness of the Bank to take risks, including:
  - receiving of periodic reports/ information from the Management Board of the Bank on key events that influence the risk level at the Bank and substantial changes in the risk management process and system,
  - receiving periodic reports/information from the Management Board of the Bank on the risk level, increased exposure to specific risks, the modes of risk identification and monitoring and actions taken to mitigate risks;
- 2) issuing opinions on the risk management strategy developed by the Management Board of the Bank for the Bank and information submitted by the Bank concerning implementation of this strategy;
- 3) supporting the Supervisory Board of the Bank in supervision of implementation of the risk management strategy in operations of the Bank by top-level management;
- 4) verifying whether the prices of assets and liabilities offered to clients take fully into account the Bank's business model and risk strategy, and if these prices fail to properly reflect the risk types in accordance with this model and strategy, presenting to the Management Board of the Bank the proposals aimed at ensuring adequacy of asset and liability prices to these types of risk.

As at 31 December 2019 composition of the Risk Committee was as follows

- Emil Ślęzak - Chairman of the Committee,
- Iwona Duda- Deputy Chairman of the Committee,
- Katarzyna Lewandowska – Member of the Committee,
- Radosław Rasiński - Member of the Committee
- Wojciech Wardacki – Member of the Committee.

### **Committee for Remuneration and Nomination**

The Remuneration and Nomination Committee has been appointed from among members of the Supervisory Board to perform tasks specified i.a. in:

- art 22aa. of the Banking Law Act - with regard to the policy of assessment of adequacy of candidates and members of: the Supervisory Board and the Management Board of the Bank, respectively,
- Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of internal capital assessment, provided for this Committee - in terms of the remuneration policy,

in particular, including:

- with regard to the policy of assessment of adequacy of candidates for members of the Supervisory Board and members of the Supervisory Board:



- issuing of opinions on the draft assessment policy and amendments to this policy,
- submitting to the General Meeting a report on audit of the documentation gathered and verification of credibility in order to assess the adequacy of a candidate for a member of the Supervisory Board or a member of the Supervisory Board of the Bank,
- presenting to the General Meeting proposals for individual assessment of adequacy of candidates for members of the Supervisory Board or members of the Supervisory Board, as well as proposing collective adequacy assessment of the Supervisory Board,
- delivery of feedback to persons being assessed on the assessment results,
- with regard to the policy of assessment of adequacy of candidates for members of the Management Board and members of the Management Board:
  - issuing of opinions on the draft assessment policy and amendments to this policy,
  - submitting to the Supervisory Board, a report on audit of the documentation gathered and verification of credibility in order to assess the adequacy of a candidate for a member of the Management Board or a member of the Supervisory Board of the Bank,
  - presenting to the Supervisory Board of proposals for individual assessment of adequacy of candidates for members of the Management Board or members Management Board, as well as proposing collective adequacy assessment of the Management Board,
  - delivery of feedback to persons being assessed on the assessment results,
- with regard to the policy of assessment of candidates for key functions at the Bank or persons entrusted with these functions - issuing of opinions on the draft assessment policy and amendments to this policy,
- with regard to the remuneration policy - issue of opinions and monitoring of the Bank's remuneration policy and supporting the Bank's governing bodies in shaping and implementation of this policy by:
  - issuing of opinions on the list of persons exerting key impact on the Bank's risk profile and its annual updates,
  - determination of remuneration of the Management Board members, including the amount and components of variable remuneration, factors shaping variable remuneration and criteria for assessment of work results and recommending these to the Supervisory Board,
  - recommending to the Supervisory Board to award, limit, withdraw, refuse payment or proceed with payment of variable remuneration for the Management Board members,
  - issuing of opinions on variable remuneration levels for persons occupying key managerial positions at the Bank, related to risk management and maintaining compliance of the Bank's operations with legal provisions and internal regulations,
  - issuing of opinions and monitoring of variable remuneration of persons occupying managerial positions, responsible for risk management at the first and second level, other than specified in letter d,
  - issuing of opinions on the remuneration policy of the Capital Group BOŚ S.A. and issue of opinions on assessments of significance of impact of subsidiaries on the Bank's risk profile.

In 2019, the Committee for Remuneration and Nomination consisted of the following members:

In the period between 1 January and 18 June 2019 (end of the 10th term of office of the Supervisory Board):

Piotr Sadownik - Chairman of the Committee,  
Dariusz Wasilewski - Deputy Chairman of the Committee,  
Janina Goss - Member of the Committee.

From 2 July 2019\*:

Piotr Sadownik - Chairman of the Committee,  
Ireneusz Purgacz - Deputy Chairman of the Committee.  
Janina Goss - Member of the Committee.

Meetings of the Remuneration and Nomination Committee are convened as necessary, however, at least twice a year. In the reporting period, 10 meetings of the Committee were convened.

\*On 18 June 2018, the 11th term of office of the Supervisory Board was commenced, and composition of the Remuneration and Nomination Committee was determined on 2 July 2019.

### **The Ecology Committee**

The Ecology Committee is a body appointed by the Supervisory Board of the Bank to support its activities. In accordance with the Regulations, basic tasks of the Ecology Committee include:

- issuing of opinions and recommendations for the Supervisory Board with regard to quarterly reports on pro-ecological activity of the Bank and initiatives in this regard, as well as directions of financing of pro-ecological projects, developed by the Bank,
- supporting of cooperation of the Bank with the National and Voivodship Funds for Environmental Protection and Water Management and other organizations working on behalf of environmental protection,
- recommendations for the Supervisory Board and the Management Board on development of pro-ecological bank products.

In 2019, the Ecology Committee comprised of the following members:

In the period between 1 January and 18 June 2019 (end of the 10th term of office of the Supervisory Board):

Andrzej Matysiak - Chairman of the Committee,

Dariusz Wasilewski - Deputy Chairman of the Committee

Janina Goss - Member of the Committee

From 2 July 2019:

Andrzej Matysiak - Chairman of the Committee,

Paweł Sałek - Deputy Chairman of the Committee

Radosław Rasala - Member of the Committee

Janina Goss - Member of the Committee

Meetings of the Ecology Committee are convened as necessary by the Chairman of the Committee. Four sessions of the Ecology Committee took place in 2019. The issues discussed pertained mainly to development of pro-ecological activity of the Bank and the potential directions of cooperation with funds for environmental protection and water management.

### **4.3. Management Board of the Bank**

#### **Information on changes in composition of the Management Board of the Bank in year 2019**

The composition of the Bank's Management Board as at 31 December 2018 was as follows:

- Bogusław Białowas, President of the Management Board,
- Arkadiusz Garbarczyk, Vice President - First Deputy President of the Management Board,
- Konrad Raczkowski, Vice-President of the Management Board.

In year 2019, the following changes took place in the composition of the Management Board of the Bank:

- on 18 June 2019, Mr. Konrad Raczkowski submitted a statement of resignation as at this date from the function of the Vice President of the Management Board of the Bank;
- in association with this resignation, during the meeting of 18 June 2019, the Board of Supervisors delegated Mr. Emil Ślęzak, Member of the Supervisory Board, to act temporarily as a Member of the Management Board of Bank Ochrony Środowiska S.A.;
- during the meeting of 11 September 2019, the Board of Supervisors passed a resolution to appoint Mr. Jerzy Zań – as at 4 November 2019 – as a Vice President of the Management Board of the Bank.

In association with the above changes, the composition of the Bank's Management Board as at 31 December 2019 was as follows:

- Bogusław Białowas, President of the Management Board,
- Arkadiusz Garbarczyk, Vice President - First Deputy President of the Management Board,
- Jerzy Zań, Vice President of the Management Board.

Until the date of preparation of this information, composition of the Management Board has not changed.

The rules of functioning, competences and tasks of the Management Board been specified in §§ 21 - 23 of the Articles of Association and in the Regulations of the Management Board (these documents are available on the Web page of the Bank [www.bosbank.pl](http://www.bosbank.pl) in the "Investor Relations" section).

Accordingly with provisions of the Articles of Association of the Bank, the Management Board of the Bank consists of at least three members being natural persons, including: the president of the Management Board, the vice president - first deputy of the president of the Management Board and other vice presidents or other members of the Management Board.

The Management Board deals with affairs of the Bank and represents the Bank in its external relations.

The Management Board operates collectively and makes decisions by passing resolutions.

The Management Board follows the corporate governance rules specified in:

- the "Good Practices of Companies Listed on the WSE", issued by the Supervisory Board of the Warsaw Stock Exchange,
- the "Principles of Corporate Governance for Supervised Institutions", issued by the Polish Financial Supervision Authority.

The Management Board announces any departures from these rules in accordance with the provisions contained in these documents.

Resolutions of the Management Board are passed during meetings convened in accordance with the Regulations of the Management Board:

- resolutions are adopted by an ordinary majority of votes. In the event of equal split of votes, the President of the Management Board's vote prevails. Resolutions are passed openly unless a request has been submitted for voting by secret ballot or separate regulations require voting by secret ballot.
- Resolutions can be adopted, if all members of the Management Board have been notified of the meeting of the Management Board, and at least one half of all members participate in the meeting, including the President of the Management Board, or - upon their absence - the Vice-President, First deputy of the President of the Management Board, or any other Management Board member as specified by the President,
- A Management Board member disagreeing with the resolution adopted may put on the record their justified separate opinion. However, this does not release such member from the obligation to comply with the resolution adopted by the Management Board,
- A Management Board member must not participate in voting on matters that concern them personally, including matters, in which there is a conflict between the interests of the Bank and personal interests of the Management Board member, their spouse or relatives,
- meetings of the Management Board are recorded in form of minutes.

Meetings of the Management Board are convened by President of the Management Board as necessary, at least twice a month. The President of the Management Board - on a justified request of a Management Board member - may convene a Board meeting urgently, specifying the time, place and agenda of the meeting.

Meetings of the Management Board are attended by its members, as well as persons invited by the President of the Management Board. In justified cases, upon the consent of the president of the Management Board, members absent during the meeting may participate in the meeting or cast their votes on resolutions using tools that enable simultaneous real-time communication and mutual identification of members of the Management Board (video conference/ teleconference). During meetings of the Management Board, the president of the Management Board presents the agenda for acceptance, manages the meeting, permits speakers, decides on procedural issues, summarizes the discussion results, formulates resolutions, recommendations and conclusions. When justified by business or formal and legal reasons, a member of the Management Board may - upon the consent of the president of the Management Board - present an issue to be added to the agenda of the meeting.

In the case of expiry of mandate of the President of the Management Board due to their death, resignation or dismissal from the Management Board, until appointment of a new president, the person responsible for managerial functions and managing of overall operations of the Bank is the Vice-President, First deputy of the President of the Management Board, appointed with the consent of the Polish Financial Supervision Authority.

During absence of the President of the Management Board, the person responsible for managerial functions and managing of overall operations of the Bank (excluding establishment and termination of proper employment relationships with managing directors, directors of organizational units of the Central Office and business center directors) is the Vice-President, First deputy of the President of the Management Board or any other member of the Management Board as specified by the President, of the Management Board. Vice Presidents or members of the Management Board supervise their entrusted areas of operations of the Bank, in accordance with the internal structure of competences established by the Management Board and approved by the Supervisory Board, as well as the

organizational units of the Central Office grouped in individual areas of operation, in accordance with the regulation of the President of the Management Board on the scope of management of the Bank's operations by individual members of the Management Board of the Bank.

## 5. CONFLICT OF INTEREST IN BOŚ S.A.

The Bank has put in place provisions on handling of conflicts of interests, including the rules for preventing conflicts of interests. Regulations of the Management Board and the Supervisory Board specify the rules of exclusion of members of these bodies from participation in treatment of issues and making of decisions that involve a conflict of interests. In the case of emergence or potential emergence of a conflict of interests, the persons concerned are obliged to disclose this fact.

Moreover, the Bank has set up internal regulations on acceptance of benefits or gifts that could influence the impartiality and neutrality in decision-making processes involving clients or entities cooperating with the Bank.

## 6. THE REMUNERATION POLICY IN BOŚ S.A.

### 6.1 The remuneration policy for managers of BOŚ S.A.

In order to meet the requirements defined in the Regulation of the Minister of Development and Finance of 6 March 2017 on the system of risk management and internal control system, remuneration policy and detailed method of calculating internal capital in banks as well as in accordance with the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, BOŚ Group implemented remuneration policy for managers approved by the Supervisory Board of BOŚ S.A.

The Remuneration Committee appointed by the Supervisory Board of the Bank evaluates remuneration Policy, gives opinion on and develops the principles of remuneration of the Management Board and gives opinion on and monitors the variable remuneration of persons occupying managerial positions in the Bank responsible for risk management at the second level, persons responsible for managing the compliance unit and internal audit unit.

The remuneration policy assumes, among others:

- payment of minimum 50% of established variable remuneration in shares of Bank Ochrony Środowiska S.A., of value estimated as the weighted average price of shares of the Bank in trading sessions on the Warsaw Stock Exchange in the period from 1 December of the year preceding the grant date to 31 January of the year of the grant date,

Shares shall mean:

- shares of Bank Ochrony Środowiska S.A. listed on the Warsaw Stock Exchange,
- phantom shares, at a value corresponding to the share price listed on the Warsaw Stock Exchange,

- deferral in payment of 40% of variable remuneration in the three equal annual tranches, with the proviso that at least 50% of each tranche is paid in shares of the Bank and the remaining part is paid in cash. The deferred part may be suspended, reduced or not paid nor realized at all, i.a. when the Bank's results differ significantly from the approved financial plan for a given year, or when conditions specified in Article 142.1 of the Act - Banking Law have been met.

- assessment of the 3-year period results, so that the amount of performance or result-based remuneration took into account the business cycle (trade cycle) of the Bank and the risk associated with this business. The results shall mean the results of the tasks in the area of effectiveness, finance, sale and individual goals set forth in the Bank's strategy or financial plan for the given year.

The maximum level of variable remuneration for employees that occupy managerial positions does not exceed 100% of fixed remuneration. The General Shareholders Meeting of BOŚ S.A. may agree to increase the maximum level of variable remuneration to 200% of fixed remuneration, in accordance with

the procedure provided in § 25.2 4), letter b) and c) of the Regulation of the Minister of Development and Finance. The increase of the maximum level of variable remuneration specified in the preceding sentence does not apply to Members of the Bank's Management Board.

In the reporting period, variable remunerations were determined for year 2018 exclusively for the Management Board Members due to failure of other persons occupying managerial positions and exerting substantial influence on the Bank's risk profile to meet the prerequisites authorizing them to be awarded variable remuneration for year 2018.

The expected total cost of variable remunerations for persons occupying managerial positions in BOŚ S.A. for results generated in year 2018 is PLN 1,137 thousand. Out of the total amount:

- payments in phantom shares were awarded, constituting a short-term benefit to be paid upon the end of the retention period, that is, 6 months from the date of awarding of the variable remuneration component, at the exchange rate constituting the arithmetical mean of closing exchange rates established during the first five sessions after the end of the retention period - 46,790 shares worth PLN 341 thousand;
- payment of PLN 455 thousand, constituting a long-term benefit, has been deferred (including: PLN 277 thousand in cash and PLN 227 thousand in shares); the deferred tranches will be paid - when awarded - in the 3 subsequent years, that is, 2020, 2021 and 2022 in equal parts, and payment of each tranche may be suspended or limited, for instance, if the Bank's results depart significantly from the approval financial plan for a given year or the conditions referred to in art. 142 item 1 of the Banking Law Act have been fulfilled;
- the amount of PLN 341 thousand in cash, constituting a short-term benefit, has been paid.

## **6.2. The management options and employee shares program**

The three-year incentive scheme for key members of the managerial staff of the Group of BOŚ S.A., the so-called management options program ("the Program") was launched in 2012 for the following years: 2012, 2013 and 2014. The Program was realized in 2013 only. The maturity date of the rights to acquire shares of Series S by the holders of Series B warrants expired on 31 December 2017. The Program was not continued.

In 2018 and 2019, there were no employee share programs at the Bank.

## **6.3. Information on remuneration and liabilities to key managerial staff of BOŚ S.A.**

Information on remunerations for key managerial staff of BOŚ S.A. in 2019 and all liabilities of the Bank to the present and former managers and supervisors has been provided in note 49 of the Annual Consolidated Financial Statements of BOŚ S.A. for the year ended on 31 December 2019.

## **6.4. Compensation agreements for managers**

In the reporting period, the following persons were Members of the Management Board:

- from 1 January 2019 until 28 June 2019:  
President of the Management Board Bogusław Białowas,  
Vice President of the Management Board Arkadiusz Garbarczyk,  
Vice President Konrad Raczkowski.
- from 18 June 2019 until 18 September 2019:  
President of the Management Board Bogusław Białowas,  
Vice President of the Management Board Arkadiusz Garbarczyk,  
acting Member of the Management Board Emil Ślęzak.
- 19 September 2019:  
President of the Management Board Bogusław Białowas,  
Vice President of the Management Board Arkadiusz Garbarczyk,
- from 20 September 2019 until 3 November 2019:  
President of the Management Board Bogusław Białowas,  
Vice President of the Management Board Arkadiusz Garbarczyk,



acting Member of the Management Board Emil Ślęzak.

- from 4 November 2019 until 31 December 2019:  
President of the Management Board Bogusław Białowas,  
Vice President of the Management Board Arkadiusz Garbarczyk,  
Vice President of the Management Board Jerzy Zań.

Contracts concluded with these managers contained the compensation rules. The following provisions were in force in this regard:

- in the case of termination or notice of termination of the contract by the Bank due to reasons other than violation of basic obligations based on the contract, there is a possibility of awarding no more than 3 times the fixed remuneration under the condition of performance of the entrusted function for the period of at least 12 months prior to termination of the contract; the severance payment amount is decided upon by the Supervisory Board on the basis of the scope of services rendered, their effectiveness and quality in the last 3 years of performance of the function and assessment of effects of the managerial services performed, financial results of the Bank and the line of business supervised.
- In the period from 1 January 2019 until 18 June 2019, these rules applied to three Members of the Management Board, in the period from 19 June 2019 until 3 November 2019 - to two Members of the Management Board, and in the period from 4 November until 31 December 2019 - to three Members of the Management Board.
- in exchange for withdrawal from dealing directly or indirectly with interests that are competitive to the Bank after termination of the function, if the function was performed for at least 3 months, a compensation has been provided, paid every month after termination of the function in the amount of 50% of the fixed remuneration received directly prior to termination of the function - for the period of 6 months.
- In the period from 1 January 2019 until 18 June 2019, these rules applied to three Members of the management Board, in the period from 18 June 2019 until 3 November 2019 - to two Members of the Management Board, and in the period from 4 November until 31 December 2019 - to three Members of the Management Board.

## **6.5. Shares of the Bank held by Members of the Management Board and of the Supervisory Board of the Bank**

According to information submitted to the Bank, none of the Members of the Management Board and none of the Members of the Supervisory Board as at 31 December 2019 held any shares or rights to shares of the Bank (same as at 31 December 2018).

At the same time, in association with Members of the Management Board having been granted variable remuneration for year 2018:

- The President of the Management Board Bogusław Białowas had 18,630 phantom shares of BOŚ S.A.,
- Vice-President - First Deputy of the President of the Management Board Arkadiusz Garbarczyk had 16,405 phantom shares of BOŚ S.A.,

Phantom shares constitute:

- a derivative instrument as defined in legal provisions on trade in financial instruments, for which the base instrument is the value of shares of the Bank on the WSE, used by the Bank for payment of variable remuneration, in accordance with requirements specified in the Regulation of the Minister of Development and Finance of 6 March 2017.
- 60% of the non-deferred part of the variable remuneration for year 2018.



## VI. STATEMENT ON NON-FINANCIAL INFORMATION

This document is a mandatory report on non-financial data. The Bank has prepared the report for the third time, using the GRI standards and own indicators. The data gathered reflect the circumstances as at 31 December 2019.

### Liability of the BOŚ S.A. Capital Group

**In accordance with its mission, BOŚ Bank wants to be the Polish ECO Bank - for people, business and the environment. As such, the Bank fits into the global family of eco-banks, which combine effective and profitable operations with support for projects related to protection of the natural environment.**

The Bank's vision: We will be the leader in the Polish system for financing of environmental protection, generating value for its shareholders, developing innovative solutions for clients and a friendly workplace for its employees, operating on the basis of corporate social responsibility.

Corporate social responsibility plays a key role in the approach of BOŚ S.A. to business. In practice, it means that the Bank:

- creates a friendly workplace for its present and future employees,
- supports and promotes projects that are friendly to the social and natural environment,
- operates in a transparent manner, being a trustworthy partner for its shareholders, clients and employees,
- wants to be a responsible business leader in the banking sector,
- builds client awareness on benefits of social commitment, care for the natural environment and a healthy lifestyle,
- develops social sensitivity of its business partners by implementing pro-ecological investments.

### What are the components of the unique approach of BOŚ Bank towards CSR?

- The BOŚ Foundation, established in 2009, is the oldest foundation in Poland established by a bank, contributing to environmental protection, promotion of ecology and sustainable development. The three pillars of its activity are: ecology, health and voluntary work.
- The Bank helps its clients in implementation of environment-friendly projects, providing a broad portfolio of products and sharing the expert knowledge and experience of its specialists (ecologists, environmental protection engineers).
- The Bank supports development of knowledge and skills related to environmental protection among its employees, stimulating pro-ecological and pro-social attitudes and activities.
- The Bank cooperates with financial institutions that pursue similar objectives (e.g. the NFEPWM, VFEPWM).
- In 2019, as one of 31 companies listed on the WSE, the Bank was included in the prestigious RESPECT Index.
- The Bank is sensitive to others even in the finest details of its activity - for instance, it was the first bank in Poland to allow customers visit its branches with pets.

### ETHICS

**Ethical values and standards followed by the Bank are the foundation of everyday work, as well as sustainable development. They are reflected not only by internal regulations, but - most of all - in the attitudes and behaviors of employees.**

The Bank implements the following internal regulations associated with ethical issues, including the field of counteracting corruption:

- The Code of Ethics of Bank Ochrony Środowiska (introduced in 2010),
- The Code of Banking Ethics (Rules of Good Banking Practice) - since 2013,
- The rules of acceptance and granting of benefits or gifts at Bank Ochrony Środowiska S.A. (since 2012),
- The policy to counteract and manage conflicts of interests at Bank Ochrony Środowiska S.A. (since 2018),

- The procedure for anonymous reporting of violations of law and ethical procedures and standards followed by Bank Ochrony Środowiska S.A. (since 2018),
- The rules of acceptance and granting of incentives at Bank Ochrony Środowiska S.A. (since 2018),
- The Work Regulations.

Dom Maklerski BOŚ belonging to the BOŚ Group applies the ethical principles and standards contained in the following documents:

- The Code of Good Practice of Brokerage Houses,
- Good communication practices and marketing activity standards on the OTC market of derivatives,
- Corporate governance rules of the PFSA,
- The violation reporting policy at DM BOŚ,
- Regulations for management of conflicts of interest at DM BOŚ,
- Customer service standards of DM BOŚ,
- Strategies and procedures aimed at detection of the risk of non-compliance of the company with its obligations based on directive 2014/65/EU.

Ethical values and standards are the basis of the Bank's everyday activity. All of the listed documents and regulations are available on the Intranet in Polish. Knowledge of the Code of Ethics is one of the requirements that must be met by newly hired employees in the adaptation process (they submit a proper statement). At DM BOŚ, the preliminary employee training includes the internal rules and regulations, including those pertaining to management of conflicts of interest.

At the Bank, interpretations of doubts related to ethics are provided by the Compliance Office, which - in cooperation with other departments - proposes and implements amendments to the Code of Ethics. The Office also conducts cyclical internal actions to promote the desirable behaviors and strengthen the sense of shared responsibility among employees for risks related to non-compliance. In matters related to ethics and compliance, every employee of the Bank may contact the Director and employees of the Compliance Office (information is available on the Intranet).

An analogical function in DM BOŚ is performed by the Department for Supervisions of Legal Compliance. Every employee of DM BOŚ can use the dedicated mailbox to request assistance from the Department.

Cases of violation at the Bank are subject to provisions of the "Procedure for anonymous reporting of violations..." Every such notification is transferred to the President of the Management Board (and if it concerns a member of the Management Board or a member of the Supervisory Board - to the Supervisory Board). The Bank warrants full anonymity of every person making a notification. DM BOŚ also has a violation reporting policy, which ensures confidentiality of all reports.

In 2019, 100% of all employees of the Bank and DM BOŚ got familiar with the anti-corruption procedures and rules. 44% of the teams participated in a training dedicated to counteracting corruption.

### **The compliance policy**

BOŚ S.A. ensures complex management of compliance of the Bank's operations with regulations, market standards and pursued values, as well as the internal control system. The formal framework and procedures developed are used not only to meet the regulatory obligations (including compliance with recommendations of the PFSA), but most of all exert positive impact on the organizations. Thanks to these, the Bank is confident that its operations are consistent with the highest standards and at the same time minimizes the key risks (financial, market, reputation and legal risks).

Compliance within the framework of the Bank's internal control system is supervised by the Supervisory Board in cooperation with the Internal Audit Committee. The Board approves the Compliance policy and assesses effectiveness of non-compliance risk management (on an annual basis), as well as adequacy and effectiveness of the internal control system (at least once a year). A complex internal supervision system is also present in DM BOŚ. Activity of the Bank and Dom Maklerski BOŚ is subject to supervision by the Polish Financial Supervision Authority.

### **EMPLOYEES**

**The human resources policy, its processes and regulatory framework as well as the organizational culture contribute to strengthening of values and standards, which are perceived as important for the Bank - including counteraction of any forms of discrimination and mobbing, providing equal opportunity for everyone and promoting diversity.**

People are the most important asset of BOŚ Bank. Care to attract and hold the best employees is visible at all stages of HR management - from talent recruitment through development of those, who have already been employed.

The Bank monitors on a constant basis the employment indicators, including staff turnover. The managerial information system provides data on the needs, opportunities and challenges associated to human capital management. The Bank also puts emphasis on enhancing work effectiveness, as well as employee loyalty and satisfaction.

DM BOŚ also pursues a complex policy of effective employment. Its key objectives are consistent with those of BOŚ Bank. They include:

- providing a specialized staff having the defined level of qualifications, position-related competences and professional experience,
- maintaining the optimum level of employment,
- effective filling of vacancies as they emerge,
- development and raising of qualifications of employees.

### Employment in the BOŚ Group according to contract type

	WOMEN	MEN	TOTAL
Employees hired for a trial period	2	6	8
Employees hired for a specific period of time	98	75	173
Employees hired for an indefinite period of time	681	400	1,081
Employees hired on the basis of contracts for replacement	35	7	42
Employees hired on the basis of managerial contracts	1	4	5
Self employed persons, working in the Group on the basis of the same rules as employees	9	6	15
Employees hired on the basis of internship contracts	0	0	0
Employees under the supervision of the Group (APT)	86	167	253
<b>TOTAL</b>	<b>912</b>	<b>665</b>	<b>1,577</b>
<b>TOTAL EMPLOYEES HIRED ON THE BASIS OF CONTRACTS OF EMPLOYMENT</b>	<b>816</b>	<b>488</b>	<b>1,304</b>

### Employment according to type of long-term contract and gender

Employees hired for an indefinite period of time:	WOMEN	MEN	TOTAL
Full-time employees	662	406	1,068
Part-time employees	25	5	30
<b>TOTAL</b>	<b>687</b>	<b>411</b>	<b>1,098</b>

### Total number of employees hired on the basis of employment contracts according to gender and region

VOIVODSHIP	WOMEN	MEN	TOTAL
Dolnośląskie	16	14	30
Kujawsko - pomorskie	27	6	33
Lubelskie	27	7	34
Lubuskie	8	1	9
Łódzkie	17	8	25
Małopolskie	35	16	51
Mazowieckie	498	349	847
Opolskie	5	1	6
Podkarpackie	22	7	29
Podlaskie	19	7	26
Pomorskie	28	8	36
Śląskie	37	33	70

Świętokrzyskie	5	0	5
Warmińsko - mazurskie	21	5	26
Wielkopolskie	26	18	44
Zachodniopomorskie	25	8	33
<b>SUMA</b>	<b>816</b>	<b>488</b>	<b>1,304</b>

#### Total number and percentage of newly hired employees according to gender and age

	WOMEN			MEN			OGÓŁEM
	≤ 29	30-50	51 ≤	≤ 29	30-50	51 ≤	
AGE:							
Number of newly hired employees	31	87	8	22	65	12	225
Percentage of newly hired employees	2%	7%	1%	2%	5%	1%	17%

#### Total number and percentage of employment contract terminations according to age, gender and or regional

	WOMEN			MEN			OGÓŁEM
	≤ 29	30-50	51 ≤	≤ 29	30-50	51 ≤	
AGE:							
Number of contract terminations of DM and Bank employees	25	141	31	19	123	26	365
Percentage of contract terminations of DM and Bank employees	2%	11%	2%	1%	9%	2%	28%

#### Diversity in practice

The Bank is getting ready to implement its diversity policy and to join the Diversity Card Programme. Despite lack of formal regulations in the Group, BOŚ Bank has taken into account the issues of equality in its employment policy for years, believing diversity to be an added value and a potential source of competitive advantage of the Bank.

#### Examples of diversity:

- Women constitute a great majority of the BOŚ Bank Group (62%);
- 28% of the top management are women;
- the share of women occupying other managerial positions is 61%;
- representatives of top management are graduates of various faculties in Poland and abroad (including economy, technical fields, IT, law, linguistics and others);
- out of the top-level management, 8.8% (3 persons) have worked for the Bank for more than 15 years; the average employment period for women is 5.3 years, and for men - 1.5;
- the top-level management includes persons with varying experience from Polish and European financial and non-financial institutions,
- the Bank hires foreigners, retirees and persons with retirement rights, as well as disabled persons
- The percentage of employees with disabilities is 1.7%.

#### Composition of staff according to employment category, gender and age

	MANAGEMENT BOARD AND DIRECTORS			TOP AND LOWER LEVEL MANAGEMENT EMPLOYEES			OTHER EMPLOYEES		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
AGE ≤ 29	0	0	0	0	2	2	64	40	104
AGE 30-50	18	44	62	96	66	162	452	233	685
AGE ≥ 51	8	20	28	25	9	34	153	74	227
<b>SUMA</b>	<b>26</b>	<b>64</b>	<b>90</b>	<b>121</b>	<b>77</b>	<b>198</b>	<b>669</b>	<b>347</b>	<b>1,016</b>

#### Percentage share of managerial staff according to employment category, gender and age

	MANAGEMENT BOARD AND DIRECTORS			TOP AND LOWER LEVEL MANAGEMENT EMPLOYEES			OTHER EMPLOYEES		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
AGE ≤ 29	0%	0%	0%	0%	0%	0%	5%	3%	8%

AGE 30-50	1%	3%	5%	7%	5%	12%	35%	18%	53%
AGE ≥ 51	1%	2%	2%	2%	1%	3%	12%	6%	17%
<b>TOTAL</b>	<b>2%</b>	<b>5%</b>	<b>7%</b>	<b>9%</b>	<b>6%</b>	<b>15%</b>	<b>51%</b>	<b>27%</b>	<b>78%</b>

### Employment conditions

BOŚ Bank is an institution of equal opportunity in terms of employment, remuneration and development. *All employees of the Bank are responsible for creating a friendly atmosphere at work, free from any form of discrimination, mobbing or harassment.* (Excerpt from the Code of Ethics). All employees of the Bank and DM BOŚ have equal rights in terms of commencement and termination of their employment relationship, terms and conditions of employment, promotion and access to development programs. DM BOŚ constantly monitors coherence of the remuneration system, taking into account the specific nature of the sector of financial institutions:

- The Code of Ethics, the Work Regulations and the Anti-Mobbing Policy contain provisions e.g. on counteracting discrimination due to any aspect (gender, age, disability, race, religion, nationality, political beliefs, union affiliation, ethnic origin, faith and sexual orientation, as well as form and period of employment).
- In its recruitment processes, the Bank applies standards consistent with the EU Directive on equal treatment. Recruitment is based on objective criteria and the established patterns and rules.
- Position valuation at the Bank is conducted on the basis of objective, substantial and anti-discriminatory criteria. Remuneration depends on the competences, scope of responsibility and professional experience, as well as remuneration practices applicable to the banking sector.
- All of the Bank's employees have access to trainings adapted to their needs and experience. The Bank puts particular emphasis on investing in development of those employees, who are distinguished by the effects of their work.
- Since 2017, the Bank has implemented the program "Bank open to disabled persons", allowing persons with confirmed disabilities to find employment (in form of telework).
- The annual employee assessment is based on the competence model and assessment of work effects - as the key objective criteria for valuation of knowledge and commitment of individual employees.
- Every employee of the Bank is appreciated and entitled to receive variable remuneration for their work.
- Cross-analyses of remuneration make it possible to monitor cohesion, non-discrimination and fairness of the policies applied.

### Average basic remuneration - female to male ratio

Top and management positions	73%
Non-managerial positions	80%

### Average remuneration paid - female to male ratio

Top and management positions	80%
Non-managerial positions	85%

### Lowest level employee remuneration to minimum local remuneration ratio according to gender and region

VOIVODSHIP	WOMEN	MEN
DOLNOŚLĄSKIE	176%	191%
KUJAWSKO - POMORSKIE	157%	209%
LUBELSKIE	150%	-
LUBUSKIE	168%	205%
ŁÓDZKIE	182%	-
MAŁOPOLSKIE	152%	152%
MAZOWIECKIE	260%	207%
OPOLSKIE	180%	159%
PODKARPACKIE	150%	136%
PODLASKIE	156%	191%

POMORSKIE	174%	-
ŚLĄSKIE	172%	182%
ŚWIĘTOKRZYSKIE	175%	-
WARMIŃSKO - MAZURSKIE	157%	-
WIELKOPOLSKIE	154%	209%
ZACHODNIOPOMORSKIE	177%	205%
<b>TOTAL FOR POLAND:</b>	<b>173%</b>	<b>193%</b>

### More than just a remuneration

The team of BOŚ Bank has access to various programs and benefits, both in standard form (such as additional financing from the Corporate Employee Fund) and tailor-made. Additional benefits are applicable to all employees, including part-time and full-time employees, as well as those hired on the basis of contracts for a definite period of time.

### Good HR Practices at the Bank:

- the program of succession to key positions at the Bank,
- hiring of internal trainers,
- support in raising professional competences, additional financing for trainings, postgraduate studies, MBA.

### Additional good practices applicable to all employees of BOŚ Bank:

- voluntary employee insurance on preferential terms,
- free health care for employees in the Enel-Med chain; preferential packages for family members,
- additional financing of Employee Capital Plans for employees (1.5% of remuneration);
- one day off per work for volunteer work or pro-ecological activity,
- remote work option (maximum 8 days per month),
- access to MyBenefit platform (benefits partially financed from the Corporate Employee Fund, including the MultiSport card and a number of services for children, tourism and entertainment services at attractive prices),
- holiday shopping coupons/ prepaid cards,
- 35% discounts for those traveling to work by railway using Koleje Mazowieckie.

Employees of DM BOŚ have access to a similar scope of benefits. Moreover, meetings and workshops dedicated to healthy lifestyle are held on a regular basis.

### Development

The BOŚ Group constantly invests in development of employee competences, being aware of the fact that these, combined with experience and commitment, are decisive for the Group's market position.

In response to development needs of its employees, in February 2019, the Bank introduced a new, complex policy of training and development, taking into account the specific characteristics of the top and medium level management. The new rules apply to all employees of the Bank and fit into the policy of equal access to competence development. Professional development of employees is determined by HR needs of the Bank, as well as its ecological mission, objectives and organizational values.

DM BOŚ follows the "Procedure for organization of trainings and raising of professional qualifications of DM BOŚ employees" and the "Procedure of assessment and verification of knowledge and competences of authorized employees", which are supplementary to the "HR Policy of DM BOŚ".

The Bank and DM BOŚ monitor employee needs on an ongoing basis, adapting to them the scope and nature of training activity. Employees determine their individual development plans in cooperation with their superiors.

The Bank puts emphasis on constant development - employees supplement their knowledge based on trainings and workshops with experience earned in everyday work. Trainings prepare employees to effectively perform their duties, but also to assume new roles in the organization in the internal recruitment process. All of the training and development activities, including e-learning trainings, are subject to assessment in term of their effectiveness, employee satisfaction and the level of knowledge earned.



**Average number of training hours per employee according to employment category**

EMPLOYMENT CATEGORY	WOMEN	MEN	OGÓŁEM
Management Board and directors	65	32	42
Higher and lower level managerial positions	35	29	33
Other administration employees	27	22	25
TOTAL NUMBER OF TRAINING HOURS	29	24	28

**Safety at work**

The BOŚ Group provides its employees with safe and ergonomic work sites. All employees go through compulsory preliminary and periodic trainings, ending with an OHS knowledge test. These are conducted by specialists of the Bank and/or external experts. The scope of training is adapted to the potential threats and conditions of a given workplace.

Designated persons participate on a regular basis (at least every two years) in fire protection and employee evacuation trainings. These are conducted by persons having at least a license of a fire protection inspector. There are regular classes as well on first aid principles - so that the proper qualifications in this regard are possessed by at least 10% of the crew of every organizational unit (not less than 2 persons). Instructions are given by lifeguards with valid licenses. The employer covers all costs of OHS trainings (including the potential accommodation and transport costs). The education activities bring measurable results. In 2019, there was only one minor accident at work, and the injury rate (IR) was 0.88.

**Sporting activity of employees**

Apart from trainings, the Bank promotes a healthy and active lifestyle of its employees. The sports sections at BOŚ bring together employees, who voluntarily share their passion for active sports. A great number of BOŚ employees are members of twelve sports sections. Active volleyball and football fans have participated in corporate league matches for several seasons. Apart from team sports, there are groups of runners, skiers and sailors among the Bank employees. The running section of BOŚ has among its members many marathon runners and it brings together representatives of all of the Bank's branches, who love to run and participate in running events throughout Poland under the BOŚ banner.

**THE ENVIRONMENT**

**As a leader in the field of financing of ecological solutions in Poland, the Bank wants to strengthen awareness of its retail and corporate clients with regard to broadly understood eco-awareness: ecological food, awareness, healthy lifestyle, caring for the environment. As an ECO Bank - it shows by its own example how financial institutions can fit into the concept of sustainable development.**

The Bank's environmental policy encompasses a number of activities and projects aimed at minimizing the impact of activity of the Bank on the environment.

Particularly important are:

- constant reduction of energy consumption (energy-saving equipment and lighting systems, including ad lighting; dusk sensors; intelligent control systems for air conditioning, heating and ventilation systems, low emission corporate vehicle fleet; eco-driving trainings),
- constant reduction of water and sewage consumption (i.a. faucet aerators, dual flush toilets),
- effective waste segregation (internal recycling of 50% of waste; contracts with professional companies to handle the remaining waste),
- employee education (e.g. on the need to turn out the lights, limit the quantity of printouts, water consumed or quantity of waste generated, including plastic).

**Second life of equipment (good practice)**

The Bank recycles 100% of computer equipment (PC and laptops) and mobile phones. Equipment can be purchased by employees or external companies. The Bank provides public utility institutions free of charge with computers and other furnishing components (e.g. furniture).

**Pro-ecological activity of Companies**

Dom Maklerski BOŚ is also actively engaged in pro-ecological activity of the BOŚ Capital Group. Among other things, DM offers agency in trade of property rights based on the so-called "colored certificates". The main recipients of this offer are producers of electricity from renewable sources (wind farms, small power plants, photovoltaics etc.).

BOŚ Leasing – Eko Profit SA finances investments associated with broadly understood ecology (from REW projects or energy efficiency to e.g. LED installations). It also supports the AGROenergia project and supports the Group's clients to obtain financing from the NFEPWM and development programs of the EU.

MS Wind Sp. z o.o., a subsidiary of BOŚ Leasing – Eko Profit SA, owns a wind farm (6 MW) in the commune of Pełczyce. In 2019, the Bank acquired shares in a company established by NFEPWM - Polskie Domy Drewniane, which promotes and implements investments associated with energy-efficient wooden building structures.

Employees of the Group are eager to join its pro-environmental initiatives. For instance, the team of the DM BOŚ in Białystok, with support of the BOŚ Foundation, implemented two eco-projects in year 2019:

"Z ekologią w tle" (construction of wooden structures for insects and squirrels) and "Ptasia Ostoja" (lessons for children, teaching them how to take care of birds).

### The Green Office certificate

In October 2019, the Central Office of the Bank passed the ecological audit with a positive result and received a Green Office certificate. It is awarded to institutions and organizations, which place great emphasis on their activity on ecology and environmental protection. Certificates are issued by the Foundation for Ecological Education (FDEE) in Kraków, cooperating in this regard with the international ecological organization Foundation for Environmental Education.

### Eco-trainings in ECO Bank

In 2019, the Bank initiated a program to raise the basic ecological knowledge, designated for all employees of the Bank. The pilot workshop was attended by 2 selected groups of employees. In 2020, all employees will undergo a complex ecological e-learning program on environmental protection, financial pro-ecological products and pro-ecological liabilities of the Bank's employees.

### The Ecological Report

For more than 20 years, the Bank has published its Ecological Report. In edition 2018/2019, particular emphasis was put on global environmental protection challenges and the way they are reflected in domestic strategic documents, as well as the Framework Strategy of Bank Ochrony Środowiska.

Readers of the report will find in it various information on pro-ecological initiatives of the Group's entities and their clients, data showing contribution of the Bank to environmental protection in Poland or summary of activity contributing to environmental education, conducted by the Bank's Foundation.

### Ecology and economy

The highly specialized staff, supporting clients in completion of pro-ecological investments, has been a significant differentiator and a competitive advantage of the Bank for years. The Bank is willing to share its knowledge, assuming that only popularization of ecological awareness may contribute to sustainable development of Poland. This is why the Chief Ecologists of the Bank are eager to participate in trade fairs, seminars and conferences, and they publish articles in trade press.

### Media consumption and waste management

Conscious management of energy, water and other media, as well as minimizing of waste are significant components of the pro-ecological mission of the Bank. Wastepaper is collected by a specialized external company; all hazardous waste (2 tons in year 2019) and electronic equipment is subject to professional utilization. In 2019, 294 tons of other-than-hazardous waste was recycled. Receipts are confirmed by Waste Transfer Cards. In 2019, the Bank and DM BOŚ used approximately 23 tons of paper (the calculations included paper for office printers, letterhead paper and corporate envelopes). Data on consumption of raw materials is reported on the basis of invoice calculations.

RAW MATERIAL	CONSUMPTION
Water consumption	6941 m <sup>3</sup>
Natural gas consumption	229 MWh
Electricity consumption	1381 MWh
Paper consumption	23 Mg

### ECO Firm 2019

Pro-ecological activity of the Bank was appreciated during the European Business Forum. The Bank received the statuette of a Social Responsibility Leader: ECO Firm 2019. The jury recognized the pro-

ecological product range of the Bank, as well as a number of activities of the Bank and its Foundation, aimed at raising environmental awareness in the society and in the business world.

## BOŚ Eco-brand Embassy

The internal program of the Bank teaches environment-friendly attitudes and enhances commitment of employees to environmental protection through tested gamification methods. It involves employees of the sales network and the Central Office. The program formula provides for action (e.g. contests for employees, their relatives and friends) focused around three eco-commitments, formulated directly by the Bank's employees:

ECO-COMMITMENT	SELECTED INITIATIVES AND ACTIVITIES
<b>Responsible consumption</b>	<ul style="list-style-type: none"> <li>a photo contest for employees "Eco commitments on a May trip",</li> <li>workshop on proper waste segregation,</li> <li>collection of secondary raw materials (on a continuous basis),</li> <li>lectures of external experts,</li> <li>An eco-library with books to promote a healthy lifestyle, reducing plastic consumption, caring for the urban environment etc.</li> <li>commitment of employees to external initiatives: "Earth Hour" or celebrating the World Environmental Protection Day</li> <li>EFFECT: 31 organizational units of the Bank got involved in fulfillment of the commitment. 60 kg caps and 250 kg used paper was collected (the funds were donated to charity).</li> </ul>
<b>Sustainable transport</b>	<ul style="list-style-type: none"> <li>encouraging employees to use public transport, to ride bikes and walk (to get to work, but also during their holiday vacations),</li> <li>activities and contests related to the European Mobility Week</li> </ul> <p>EFFECT: 24 employee teams worked to fulfill the commitment. 153 employees worked for "Ecological kilometers", in total covering the distance of 39.3 thousand kilometers (38.8 million steps walking, 2.3 thousand kilometers while running, 12.2 thousand kilometers riding bicycles and more than 6 thousand kilometers traveling by railway).</p>
<b>Active lifestyle</b>	<ul style="list-style-type: none"> <li>a contest for a slogan to promote an eco-commitment,</li> <li>promotion of various activities - physical, social, charity-related, development of own interests,</li> <li>exercising at the office with an expert at the Bank's Central Office,</li> <li>promotion of activity outside work hours,</li> <li>a great number of employees participating in runs and celebrations accompanying the Independence Day,</li> <li>involvement of employees in Christmas food collection.</li> </ul> <p>EFFECT: 26 employee teams worked to fulfill the commitment.</p>

The "BOŚ Eco-brand Embassy" initiative is also focused on promotion and development of employee engagement in voluntary work. In 2019, eco-volunteers participated, among others, in:

- lessons in schools and other institutions (pertaining to pro-ecological attitudes, waste segregation and recycling, elimination of food waste) - the cycle was organized together with the Foundation of Bank Ochrony Środowiska
- the internal cycle "My Eco-Passion" (workshops for co-workers on such passions as upcycling, beekeeping, animal care etc.)
- voluntary work at the warehouse of SOS Food Bank in Warsaw.

## PRODUCTS

The mission "Polish ECO Bank - for people, business and the environment" is also visible in the Bank's product range. For retail customers, small and medium-sized companies and corporate clients, the BOŚ brand is a warranty of a modern range of products - including "green" ones - characterized by the highest standard of management, commercial ethics and care for the natural environment and sustainable development of Poland.

The Bank is distinguished by a broad range of products obtaining additional financing from such institutions as BGK, NFEPWM, VFEPWM. Experienced employees of the Bank, including ecology specialists, may arrange financing of various projects that contribute to increase in competitiveness of Polish economy.

All products are supervised for their compliance with the law, recommendations of supervisory bodies, trade practice and internal requirements of the Bank. The most important components of the legal framework of products include:

- the Banking Law Act, the Act on consumer loans, the Act on mortgage loans,
- Recommendations of the PFSA: S, T, U,
- The rules of development and management of banking products at BOŚ S.A.,
- documents that specify the rules of calculation of interest rates, commissions and charges for individual groups of clients.

Every new product must be assessed by the Financial and Operating Risk Department, the Credit Policy and Asset Valuation Department, the Compliance Office and the Legal Department. The opinions issued include assessment and mode of management of significant risks, fulfilling of information obligations, identification of potential conflicts of interests, compliance with the law.

#### **Client satisfaction and needs**

The Group does its best to respond to client needs. In 2019, the “Blżej Klienta” project was implemented, aimed at introducing methods and tools focused on clients and their needs. A selected group of employees, as well as all directors were invited to participate in development of the project and in trainings. The first task was to commence works on implementation of simple Polish language rules in product communication with clients. The first changes were implemented on the new Web page of the Bank and in letters responding to complaints of Clients.

Several times a year, DM BOŚ distributes Web-based questionnaires among its clients, asking them to assess the products and services offered by DM and functionality of IT systems. The results are utilized to improve the quality of services rendered and serve as an inspiration for development of new functions in transaction systems of Dom Maklerski.

In the annual survey of the Association of Individual Investors, DM BOŚ has occupied one of the first three places for several years. It has received particularly high scores in categories of fail-safety and speed of its Web-based platform, as well as the educational offer.

#### **ECOCredit for photovoltaics (good practice)**

Thanks to the preferential loan offered by the Bank, household can easily, without having to obtain a building permit:

- become prosumers, that is, both consumers and producers of “green energy”,
- reduce their electricity bills.

As a standard, a single photo-voltaic installation of 1kW produces 1000 kWh of electricity annually. On the average, this generates savings of around PLN 600 per year.

The Bank's offer includes not only the attractive loan terms (long crediting period - up to 10 years, low commission and margin, high maximum amount - even up to PLN 75 thousand), but also substantive support of ecology experts. Persons interested in the preferential loan can find a lot of practical information on obtaining solar energy from the Web page of the Bank.

#### **“Dom bez rachunków” campaign (good practice)**

The Bank is a partner in a campaign addressed to private investors, planning to build a house, as well as installation engineers, designers and architects. Other partners in the campaign include the Trade Agreement for Energy Efficiency (Porozumienie Branżowe na Rzecz Efektywności Energetycznej - POBE) and the Prime Minister's Representative for the Clean Air Program.

The purpose of this initiative is to popularize knowledge on energy-effective construction and promotion of renewable energy sources. While inaugurating the campaign, the Bank presented its new mortgage loan EKO DOM+, which fits into the concept of “Dom bez rachunków” (“House with no bills”).

#### **Sustainable financing - a response to the climate crisis**

The Bank, as a leader in financing of ecology in Poland - provides modern, effective solution, allowing the state and enterprises operating in Poland to face effectively the climate challenge through such solutions as reduction of consumption of natural resources, improvement of energy efficiency and increasing of emphasis on RES.

On the global level, these capital-intensive activities are often carried out by dedicated entities, known as green banks. In Poland, this role has been performed - for almost three decades - by the BOŚ Bank.

The pro-ecological offer of BOŚ goes beyond the standards of traditional banking. The Bank shows great commitment to promotion, among other things, of the concept of sustainable construction. It was one of the first banks in Poland to introduce/ implement the special financing methodology for projects using the auction system and other forms of support specified in the Act on RES.

Close cooperation of the Group with the main shareholder - the National Fund for Environmental Protection and Water Management - allows its clients to take advantage of comprehensive support in development of financial engineering of its projects.

#### **Selected green products:**

- the fast and easy Transparent loan for replacement of heat sources and thermal upgrading of houses (supplementary and bridge financing for the Clean Air program)
- “Pełnym oddechem” loan, aimed at future and presents clients of PGNiG for achievement of objectives complementary to the governmental program for combating smog,
- attractive loans offered in cooperation with Voivodship Funds for Environmental Protection and Water Management (VFEPWM) in selected voivodships - e.g. for replacement of heat sources, thermal upgrading and RES installations,
- attractive loan promotions for prosumer photo-voltaic micro installations (practical support of Energia Plus and Mój Prąd governmental programs),
- ecological mortgage loans,
- a special offer addressed to developers following such standards as BREEAM or LEED,
- Kredyt EkoOszczędny, with an option of repayment from savings generated by the undertaking being financed, supplemented in 2019 by a free Biznesmax guarantee,
- a credit with a 20% thermal upgrade or renovation premium from the Fund for Thermal Upgrading and Renovations,
- a product from the line of credit with EBI, with the Climate Action component embedded in the Juncker Plan.

#### **Eco-turbines**

In May 2019, Eco-Factoring and Eco-Savings Loan received awards in the plebiscite organized by Gazeta Finansowa, known as Turbiny Polskiej Gospodarki (the Polish Economy Turbines) and were named the Best products for SMEs 2019.

#### **Marketing communication**

Marketing activities are aimed not only at promotion of products, but also at active promotion of behaviors and attitudes that fit into sustainable development.

The Marketing Department operates in accordance with the marketing campaign procedure, which ensures compliance of the marketing message with the law, including product labels. All marketing materials must receive a positive opinion of the Department for Supervision of Legal Compliance. In 2019, like in the previous years, the Bank did not identify any cases of non-compliance of product labeling and marketing communication with regulations and voluntarily applied standards in this regard.

#### **Stock exchange education (good practice)**

DM BOŚ, as one of the first brokerage offices in Poland, has bet on solid education as the key for informed investments on the capital market. The Web page of DM BOŚ offers a number of free trainings, e-learning workshops and tests that introduce the user to the world of investments, at the same time allowing experienced investors to broaden their knowledge. The materials have been prepared in a friendly, transparent format.

The contribution of DM BOŚ to economic education of the Poles has been recognized many times. In 2019, the Association of Individual Investors awarded DM BOŚ the title of the Hero of Capital Market 2019.

#### **Under special supervision**

Due to the specific nature of its activity, DM BOŚ has at its disposal detailed internal procedures for marketing and sales, which ensure compliance with the law, trade standards and ethical values of the Group. Marketing materials are subject to assessment by the Department for Supervision of Legal Compliance or the Team for Supervision of Foreign Branches. DM BOŚ prevents dishonest sales practices, among other things, through constant employee education, control of sales calls, and the remuneration system, which is based, among other things, on quality parameters.

#### **THE SOCIETY**

**Health, ecology and voluntary work are the pillars of activity of the BOŚ Foundation, which has integrated the pro-social activity of the Bank and DM BOŚ for more than 10 years. In accordance with its mission, the Foundation promotes and implements the rules of sustainable development,**



**making sure that improvement of standards of life of citizens is not achieved at the expense of the natural environment.**

Distinguishing features of activities and initiatives supported by the Foundation:

- true faith in the sense of systematic and long-term action,
- focus on durable social change,
- the scope, form, partners of programs adapted to specific needs of the local community,
- cooperation with persons and institutions sharing the values embedded in the Bank's social responsibility,
- pro-active attitudes of the Bank's employees- both at the stage of diagnosis of the needs of the local communities and involvement in voluntary work.

#### Pillars of social work of the Foundation

PILLAR	ACTIVITY ASSUMPTIONS	EXEMPLARY INITIATIVES (DETAILED DESCRIPTIONS CAN BE FOUND ON THE WEB PAGE OF THE FOUNDATION)
Health	promotion of the role of healthy diet and physical activity for retaining a good health condition in the era of changing civilizational conditions	<ul style="list-style-type: none"> <li>■ PlanujeGotuje.pl</li> <li>■ "Zdrowo jem, więcej wiem" (I Eat Healthy, I Know Better) project</li> </ul>
Ecology	raising of social awareness of sustainable development and ecology; promotion of pro-ecological ideals, particularly among young people	<ul style="list-style-type: none"> <li>■ "Postaw na słońce" (Bet on the Sun - the project was awarded the main prize in the Clean Energy Promoter 2019 category during the Pol Eco System trade fair in Poznań)</li> <li>■ Brudno Tu (It's Dirty Here)</li> <li>■ Zielona Ławeczka (Green Bench)</li> <li>■ Świat oczami młodych (World in the Eyes of the Young)</li> <li>■ Tradycyjny sad (Traditional Orchard)</li> </ul>
Voluntary work	active voluntary work as a component of the corporate social responsibility policy, as well as one of the most significant components of the organizational culture, strengthening relations between co-workers	<ul style="list-style-type: none"> <li>■ Micro-subsidies</li> <li>■ Pomagam cały rok (Helping All Year Long)</li> </ul>

#### The scale of action (selected data)

- More than 1,770 participants of 388 student teams from all parts of Poland in the 5th edition of "Bet on the Sun". In total, the students prepared 200 designs of photo-voltaic micro installations for single family houses.
- 500 participants in more than 70 teams of neighbors for the 5th edition of the "Green Bench" (17 grants were awarded).
- 13 thousand works from 880 educational institutions submitted for the 3rd edition of the contest "World in the Eyes of the Young".
- More than 2,200 submissions for the 10th edition of the health promoting program for grades 1 to 3 "I Eat Healthy, I know Better".

#### BOŚ Group employee engagement

##### Micro

##### subsidies

In two editions (spring and autumn of 2019) of the employee voluntary program, additional financing was granted to 12 projects for the total amount of PLN 35,960. 47 volunteers provided assistance - based on estimates - to more than 3,960 beneficiaries. Volunteers did almost 850 hours of work.

Selected projects:

- lessons "BOŚmy Zieloni" ("We're Green")
- "Zdrowe jest pyszne" ("Healthy is Delicious") workshops
- My się pracy nie boimy; Lisi Borek odnowimy" ("We're not afraid to work, we'll renovate Lisi Borek")



- „Z kijem do lasu – po aktywność i zdrowie” (“Health and activity to be found in the forest”)
- BiblioTerapia "Lecznica duszy" (A library for intellectually disabled users).

#### **Pomagam cały rok (Helping All Year Long) (individual charity)**

In accordance with the slogan, employees of the Bank and DM BOŚ are eager to help all year long. New employees are also joining in voluntary activity (in the adaptation process, they participate in a presentation explaining why it is a good idea to take part in charity work).

In 2019, thanks to commitment of our employees:

- three scholarships were financed for 3 talented children from low-income families,
- financial support was provided to 8 employees of BOŚ Bank,

Employee voluntary activity is strictly linked to the “BOS Eco-Brand Embassy” initiative (more on the topic in the chapter on ecology).

#### **1 day off - for those, who are not indifferent (good practice)**

An employee engaging in voluntary or pro-ecological work is entitled to one additional day off during the calendar year. This is yet another incentive promoting pro-ecological activity and helping others.

#### **BAKCYL - banking experts share their knowledge.**

Since 2013, the Bank has been a partner in the project “Banking Experts for Financial Education of the Youth”. It is a unique example of cooperation between normally competing financial institutions - in the Bakcyl program, they join efforts to raise the level of financial knowledge of the young generation of Poles. The program is organized by the Warsaw Banking Institute Foundation and the Polish Banks Association.

The trainers organizing lessons in schools are trained bank employees. 2019 was a year of record-breaking involvement - in total, the Bank's experts conducted 64 lessons (almost one half of all classes in years 2013-2019). One of the volunteers is the President of the Management Board Bogusław Białowąs. In 2019, he participated in a live Facebook discussion - young people could ask him about a career in the banking world.

BAKCYL has won a prize in the Contest of the Banking World Leaders in the corporate social responsibility category.

**Signatures of Members of the Management Board of BOŚ S.A.**

Date	First name and surname	Position/function	Signature
16.03.2020	Bogusław Białowas	President of the Management Board.	.....
16.03.2020	Arkadiusz Garbarczyk	Vice President - First deputy of the President of the Management Board	.....
16.03.2020	Jerzy Zań	Vice President of the Management Board	.....