



DIRECTORS' REPORT ON THE OPERATIONS OF THE BANK OCHRONY ŚRODOWISKA GROUP IN 2022

CONTAINING DIRECTORS' REPORT ON THE OPERATIONS
OF BANK OCHRONY ŚRODOWISKA S.A.

Warsaw, March 2023

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FINANCIAL HIGHLIGHTS

THE GROUP Data from the consolidated financial statements of the BOŚ Group	(PLN thousand)		(EUR thousand)	
	12 months ended December 31st 2022	12 months ended December 31st 2021	12 months ended December 31st 2022	12 months ended December 31st 2021
Interest income and similar income	1,205,878	430,640	257,210	94,075
Fee and commission income	167,992	181,742	35,832	39,702
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	22,878	67,633	4,880	14,775
Gain (loss) on investment securities	-	197	-	43
Profit before tax	194,135	79,269	41,408	17,317
Net profit	128,244	47,456	27,354	10,367

THE GROUP	(PLN thousand)		(EUR thousand)	
	December 31st 2022	December 31st 2021	December 31st 2022	December 31st 2021
Total assets	22,006,181	20,229,559	4,692,250	4,398,304
Amounts due to central bank and other banks	141,143	420,389	30,095	91,401
Amounts due to clients	18,820,809	17,007,863	4,013,051	3,697,844
Equity attributable to owners of parent	1,964,138	1,865,795	418,802	405,661
Common equity	1,461,036	1,461,036	311,528	317,658
Number of shares	92,947,671	92,947,671		
Capital ratio	14.95	14.61		

BANK Data from the financial statements of BOŚ S.A.	(PLN thousand)		(EUR thousand)	
	12 months ended December 31st 2022	12 months ended December 31st 2021	12 months ended December 31st 2022	12 months ended December 31st 2021
Interest income and similar income	1,198,582	423,307	255,654	92,474
Fee and commission income	82,766	83,703	17,654	18,285
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	-2,658	20,222	-567	4,418
Gain (loss) on investment securities	-	197	-	43
Profit before tax	185,912	73,891	39,654	16,142
Net profit	127,608	48,714	27,218	10,642

BANK	(PLN thousand)		(EUR thousand)	
	December 31st 2022	December 31st 2021	December 31st 2022	December 31st 2021
Total assets	21,915,238	20,093,787	4,672,858	4,368,784
Amounts due to central bank and other banks	141,143	420,389	30,095	91,401
Amounts due to clients	18,879,924	17,012,146	4,025,656	3,698,775
Equity attributable to owners of parent	1,961,996	1,864,289	418,345	405,333
Common equity	1,460,364	1,460,364	311,385	317,512
Number of shares	92,947,671	92,947,671		
Capital ratio	15.05	14.81		

I. SUMMARY OF THE FINANCIAL RESULTS OF THE GROUP

The Group of Bank Ochrony Środowiska S.A. (the “BOŚ Group” or the “Group”) consists of Bank Ochrony Środowiska S.A., as the parent, two direct subsidiaries: Dom Maklerski BOŚ S.A. and BOŚ Leasing Eko Profit S.A., and MS Wind Sp. z o.o., an indirect subsidiary.

Market environment

In 2022, the situation in the Polish economy continued to be affected by the Russia's invasion of Ukraine, which began on February 24th 2022. The war in Ukraine brought a marked deterioration in business and consumer sentiment. Strong increase in food and energy prices contributed to inflation growth. In the first three quarters of 2022, the Monetary Policy Council continued its monetary tightening cycle. From January to September, the interest rates of the National Bank of Poland were increased by 5.0 percentage points: the NBP reference interest rate to 6.75%, the deposit rate to 6.25%, and the Lombard rate to 7.25%. The tightening of the NBP's monetary policy caused interest rates on interbank deposits to spike. Economic activity in Poland has been declining over the course of consecutive quarters in 2022.

Key financial achievements of the Group in 2022

Despite facing economic repercussions from the war in Ukraine and the adverse impact of regulatory changes, including the cost of loan vacation provisions, contributions to the Borrower Support Fund, and the increasing burden of provisions for foreign currency housing loans, in 2022 the BOŚ Group delivered:

- the highest net profit in its history, which amounted to PLN 128.2 million, compared with PLN 47.5 million in 2021,
- increase in return on equity (ROE), from 2.5% in 2021 to 6.7% in 2022,
- improvement of the cost/income ratio (C/I), from 64.9% in 2021 to 52.9% in 2022,
- increase in the share of green loans, from 37.12% in 2021 to 40.79% of the Bank's total loan balance at year end 2022.

Results of the Group

In the period from January 1st to December 31st 2022, the BOŚ Group earned a net profit of PLN 128.2 million, compared with PLN 47.5 million reported in 2021. The Group's performance improved mainly in terms of net interest income.

Selected items of the statement of profit or loss

Selected items of the profit and loss account, PLN thousand	2022	2021	Change (%)
Net interest income	758,340	374,495	102.5
Net fee and commission income	127,568	141,854	-10.1
Gain (loss) on financial instruments measured at fair value through profit or loss	22,878	67,633	-66.2
Gain (loss) on foreign exchange transactions	36,890	25,300	45.8
Net other income	-5,172	566	x
Legal risk costs of mortgage loans denominated in foreign currencies	-144,306	-20,783	594.3
Net impairment losses	-105,995	-114,094	-7.1
Administrative expenses	-496,068	-395,702	25.4
Profit before tax	194,135	79,269	144.9
NET PROFIT	128,244	47,456	170.2

Between January 1st and December 31st 2022, the BOŚ Group generated net interest income of PLN 758.3 million. The result was an increase of PLN 383.8 million compared with 2021, despite the charge to loan vacation provisions.

In 2022, interest income rose by PLN 775.2 million year on year. The largest increase was seen in interest income from institutional clients, and interest on investment debt securities. The main driver of interest income was the increase in WIBOR rates as a result of the Monetary Policy Council's decision to raise interest rates.

Total interest expense went up by PLN 391.4 million relative to 2021. Interest expense rose by less than interest income due to the continually high share of current accounts and low-interest rate deposit products. The Bank offered its clients term deposit products adjusted to the rising interest rates. As of June 2022, the Bank significantly raised the rates of interest offered on retail deposits sold via electronic channels and the Bank's branch network. The interest rates offered on selected deposits gave the Bank a leading market position compared with other banks.

The Group's net fee and commission income was PLN 127.6 million, which represents a year-on-year decrease of PLN 14.3 million. There was a decline in fee and commission income from brokerage services due to a downturn affecting the stock exchange market. This was partly offset by a rise in commission fees on guarantees and letters of credit and in commission fees on loans.

Gain (loss) on financial instruments measured at fair value through profit or loss was PLN 22.9 million, compared with PLN 67.6 million in 2021.

Legal risk costs of foreign currency mortgage loans were PLN 144.3 million, compared with PLN 20.8 million in 2021. The increase in this item is primarily attributed to the adoption of more conservative parameters for estimating provisions and a change in the accounting policy for presenting the legal risk provision. In line with the applied policy, for active loans, the provision is recognized as an adjustment (reduction) of the gross carrying amount of loans in accordance with IFRS 9. The policy change resulted in the release of some impairment charges and an increase in the cost of legal risk of mortgage loans.

In 2022, impairment losses were PLN -106.0 million, compared with PLN -114.1 million in 2021.

Administrative expenses of the Group went up by PLN 100.4 million, or 25.4%, relative to the same period of 2021, due mainly to a PLN 38.4 million total contribution to the Borrowers' Support Fund.

Employee benefits expense also increased, by PLN 37.6 million, or 19.7%. The Bank completed a job evaluation process, with one of its objectives being to link compensation in individual jobs to current market benchmarks.

Another significant driver of administrative expenses were material costs, which increased by PLN 12.2 million, or 11.0%.

Loan repayment holidays

The Business Crowdfunding and Borrowers Assistance Act of July 7th 2022 grants borrowers the right to temporarily suspend repayment of up to eight instalments of a mortgage loan granted in the Polish currency for their own housing needs between 2022 and 2023. This temporary suspension is commonly referred to as loan repayment holidays. Due to the likelihood of borrowers exercising this right, the Bank recognizes, at the reporting date, an adjustment to the gross carrying amount of the loan relating to instalments that may be suspended in future periods. In estimating the adjustment to the gross carrying value, it was assumed, based on actual observations, that 58% of eligible instalments would be suspended. The suspension of instalments by clients in 2022 was accounted for as a non-material modification to the loan agreements.

The interest income from instruments measured at amortized cost for the year 2022 incorporates an adjustment for loan repayment holidays, resulting in a reduction of income by PLN 20,4 thousand.

Impact of additional contribution to the Borrowers' Support Fund on performance

On September 15th 2022, the Bank received a letter from the Borrowers' Support Fund Board stating that the amount of an additional contribution due from the Bank to the Borrowers' Support Fund was close to PLN 10 million. The Bank has received another letter from the Board of the Borrowers' Support Fund, notifying the Bank of the adoption of a resolution on November 28th 2022, which determines the current amount of payments to be made to the Fund. Consequently, a total of PLN 38.4 million was charged to the 2022 result as a contribution to the Borrowers' Support Fund.

Provision for the legal risk of foreign currency mortgage loans. Compromise and Settlement Programme

As at the end of 2022, the nominal amount of CHF-denominated residential loans was PLN 773.4 million. The provision recognised by the Bank for the legal risk of CHF mortgage loans was PLN 490.2 million as at December 31st 2022 (December 31st 2021: PLN 368.8 million).

At the end of 2022, the total provision for foreign currency mortgages reached PLN 514.8 million, which represents an increase from the provision of PLN 408.2 million for legal risk associated with foreign currency mortgages recorded at the end of 2021.

The provisions also cover the cost of the Compromise and Settlement Programme for clients repaying foreign currency mortgage loans as proposed by the Chairman of the Polish Financial Supervision Authority. The Bank launched the Programme on January 31st 2022. By the end of 2022, the Bank received 798 applications for settlement concerning foreign currency mortgage loans. The outstanding balance of those loans was PLN 81 million. 327 settlement agreements were signed.

Financial ratios

Financial ratios	2022	2021	Change in percentage points
Return on capital (ROE)	6.7	2.5	4.2
Return on assets (ROA)	0.6	0.2	0.4
Interest margin on total assets	3.6	1.8	1.8
Risks costs	-0.8	-0.8	0.0
Costs/income (C/I)	52.9	64.9	-12.0
Tier 1 capital ratio	14.11	13.26	0.85
Total capital ratio	14.95	14.61	0.34

Interest margin on total assets, calculated as the ratio of net interest income in the period January 1st–December 31st 2022 to average assets, was 3.6%, compared with 1.8% in the same period of 2021. The improvement was achieved largely a result of the increase in interest rates, partly offset by a negative impact of the provision for statutory 'loan repayment holidays'.

The cost to income (C/I) ratio improved significantly, to 52.9%, compared with 64.9% in 2021, mainly because income grew faster than costs.

The capital adequacy ratio of the Group was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional arrangements. As at December 31st 2022, the Bank and the Group met the applicable capital standards. Tier 1 capital ratio stood at 14.11% and the total capital ratio was 14.95%.

Impact of the war in Ukraine on operations

In 2022, BOŚ monitored the economic and market situation, in particular the risk of major sudden external events likely to have a significant indirect impact on the Bank's situation.

As part of its stress tests, the Bank has analysed the impact of these events on financial risk and assessed the consequences of possible negative scenarios.

The stress tests' results show a modest increase in exposure to liquidity risk, interest rate risk in the banking book, and counterparty credit risk; however the overall impact on risk exposure within what is expected by the Bank.

With the current developments under the stress scenario for the ongoing Russian-Ukrainian conflict, the Bank has not experienced any liquidity problems or adverse impact on other financial risks. Despite short-lasting liquidity problems on the interbank market and a temporary sharp increase in cash withdrawals (in the first quarter of 2022), no major threats to the Bank's liquidity have been observed.

From the financial risk perspective, depreciation of the domestic currency and growing interest rates have no negative impact on the Bank's liquidity.

The portfolio of the largest trading and organisational exposures to the conflict zone was being monitored but no indications of impairment and no reclassifications to Bucket 2 were identified in the three months to December 31st 2022.

However, the economic and financial conditions in Poland took a turn for the worse due to the energy crisis triggered directly by the war in Ukraine, which – as a critical factor behind the health of all Polish businesses, i.e. also the Bank's clients – is affecting the quality of its loan portfolio and the level of impairment losses. This impact is already noticeable, but not yet significant.

The international situation continues to affect the Bank's cyber security. Since February 2022, there have been more numerous attempted attacks on the Bank's online banking services. Most frequently, those have been attempts to break through the security systems exploiting vulnerabilities recently communicated to the public. No successful security breach has been identified. No successful Distributed Denial of Service (DDoS) attacks, which are massive distributed attacks aimed at disrupting client access, were identified on the electronic banking components and the information service at www.bosbank.pl. The Bank's Security Operation Center cell operates round the clock, ensuring continuous monitoring of cyber events. The Head of the Cybersecurity Department actively participates in the activities of financial sector groups operating with the Polish Bank Association (ZBP) and attends monthly meetings organized by the PFSA. These engagements facilitate the exchange of information on current international developments related to cybersecurity within the financial sector.

BOŚ's credit ratings and stable outlook affirmed

On October 19th 2022, the rating agency Fitch Ratings Ltd (the "Agency") affirmed the Bank's credit ratings, determining that the outlook on those ratings was stable. Currently, the ratings are as follows:

Long-Term Foreign Currency Issuer Default Rating at 'BB-', outlook stable,

Short-Term Foreign Currency Issuer Default Rating at 'B',

National Long-Term Rating at 'BBB-(pol)', outlook stable,

National Short-Term Rating at 'F3(pol)',

Support Rating: 4,

Support Rating Floor: B

Viability Rating at 'bb-',

National Long-Term Rating for senior unsecured bonds 'at BBB- (pol)',

Rating for subordinated bonds at 'BB(pol)',

National Short-Term Rating for senior unsecured bonds at 'F3 (pol)'.

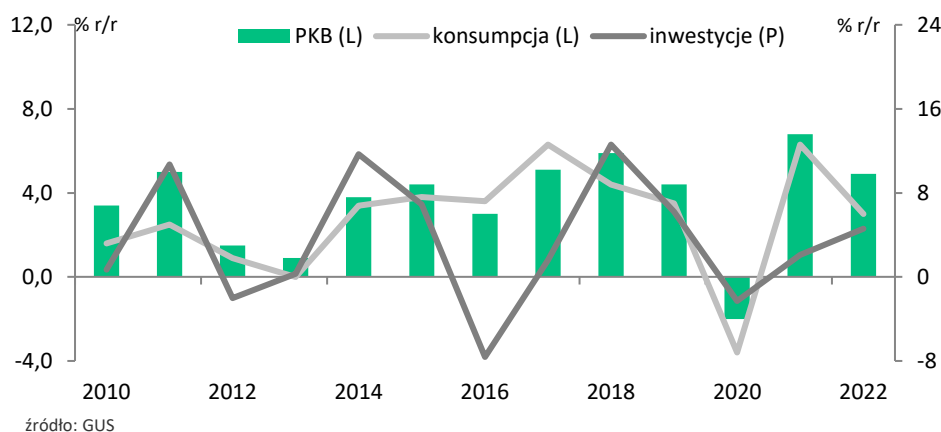
II. I. FACTORS AND EVENTS AFFECTING THE FINANCIAL CONDITION OF THE GROUP

1. Macroeconomic situation

The Russian invasion of Ukraine launched on February 24th 2022 brought about a major change in global economic prospects, especially for the European economy. The conflict in Ukraine has badly impacted both business and consumer sentiment, mainly across Europe, after economic activity in the US and Europe revived in the first quarter of the year, supported by the lifting of pandemic-related restrictions. The main source of the deteriorated sentiment was a surge in commodity prices, particularly steep in the case of energy carriers, and the risk that the European market may be undersupplied in terms of energy (mainly gas), with a resulting threat of a significant decline in economic activity. During the fourth quarter, several factors contributed to a considerable decline in gas prices on European markets. These factors included a reduced demand for gas due to an exceptionally mild winter and the availability of alternative gas supplies from sources other than Russia. Consequently, there was a notable decrease in electricity prices as well. These developments ensured the replenishment of gas storage facilities and helped maintain the energy security of the European Union. As a result, the risk of a deep recession in the eurozone fell.

In 2022, economic activity in Poland experienced a decline over consecutive quarters. Following GDP growth of 8.6% year-on-year in the first quarter, the pace of growth slowed to 3.6% in the third quarter and further to 2% year-on-year in the fourth quarter. As a result, the overall GDP growth for 2022 decelerated to 4.9%, compared with 6.8% in 2021. Private consumption experienced a significant weakening throughout the year, primarily due to a decline in the real purchasing power of household income caused by high inflation. Despite the weakening of economic activity, the labour market situation remained stable during the same period. As of December 2022, the registered unemployment rate in Poland was at 5.2%, marking a decrease from 5.8% at the end of 2021. The number of unemployed individuals decreased by over 80 thousand, to 812 thousand.

Changes in Poland's GDP and its main components



PKB (L)	GDP (L)
Konsumpcja (L)	Consumption (L)
Inwestycje (P)	Investments (P)
źródło: GUS	source: Statistics Poland

In 2022, the main global economies saw inflation rates spiralling to levels unseen for decades. The soaring inflation was driven by a combination of factors affecting the economy over the past year or so, including post-pandemic

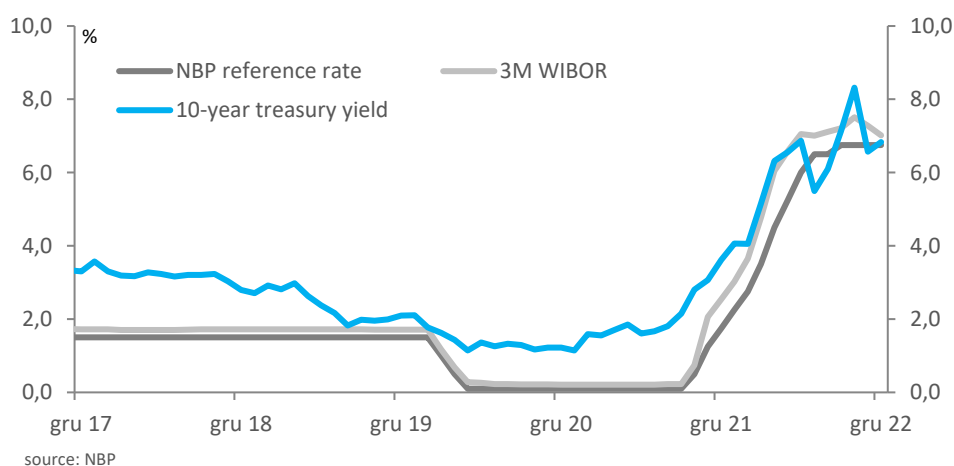
problems with global supply chains, which stimulated an increase in the prices of production inputs (albeit the impact of that factor was weakening gradually over 2022); Strong demand after the lifting of COVID-related restrictions; Surge in commodity prices across global markets as a result of the military conflict in Ukraine. In the final months of 2022, inflation rates declined primarily on a decrease in global commodity prices. By the end of 2022, the Consumer Price Index (CPI) in the U.S. stood at 6.5% year on year, compared to a peak inflation rate of 9.1% in June. In the Eurozone, the CPI reached 9.2% year on year, with the highest inflation peak recorded in October at 10.6% year on year.

In Poland, the consumer price index showed significant growth throughout most of 2022, reaching a local peak of 17.9% year on year in October. This inflationary trend was primarily driven by substantial increases in food and energy prices. There was also a pronounced increase in the core inflation rate as a result of, among other things, increased demand due to the lifting of epidemic restrictions and supply-side constraints caused by worldwide problems in logistics supply chains. Towards the end of the year, inflation in Poland started to decline, primarily driven by a drop in energy commodity prices. By the end of 2022, the year-on-year inflation rate had decreased to 16.6%.

In the first three quarters of 2022, the Monetary Policy Council (MPC) maintained its monetary tightening cycle that had commenced in late 2021. From January to September, the interest rates of the National Bank of Poland were increased by 5.0 percentage points: the NBP reference interest rate to 6.75%, the deposit rate to 6.25%, and the Lombard rate to 7.25%. In October, the Monetary Policy Council broke the cycle of interest rate hikes, and the National Bank of Poland kept the interest rates stable in the fourth quarter.

The tightening of the NBP's monetary policy caused interest rates on interbank deposits to spike. From the beginning of the year to the end of December, 3M WIBOR rose by 448 basis points, to 7.02%.

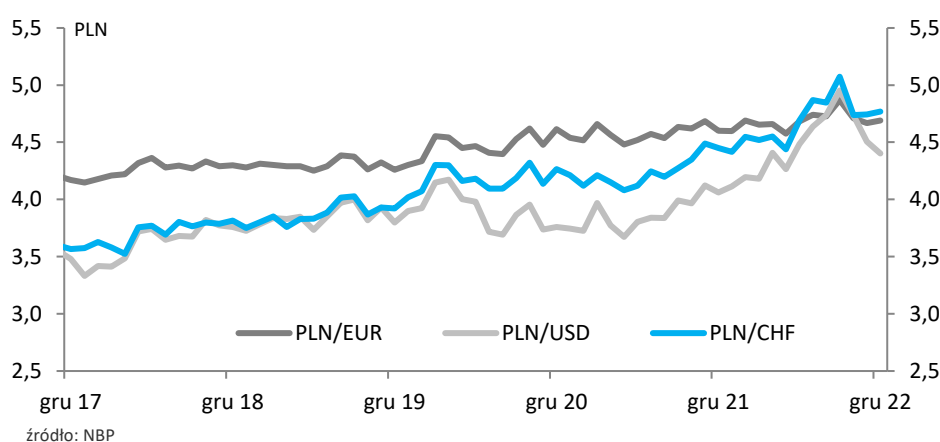
Interest rates in Poland



From the beginning of 2022, the global financial markets were shaped by expectations regarding the extent of monetary tightening measures implemented by major central banks in response to rising inflationary pressures. At the same time, concerns emerged regarding the impact of higher inflation, restrictive monetary policies, and the ongoing war in Ukraine, including the energy crisis, on economic activity. These opposing trends led to significant volatility in the global financial markets throughout 2022. During the second and third quarters, concerns emerged in the financial markets regarding a severe economic recession in the euro area, which had a particularly adverse impact on the prices of European financial assets. Towards the end of the year, as fears of a Eurozone recession due to the energy crisis subsided, there was an improvement in sentiment towards European assets, leading to a strengthening of the euro, among other positive developments.

During the first three quarters of 2022, the Polish currency depreciated while exhibiting significant volatility. In the first quarter, the depreciation pressure on the zloty was a result of strong overall uncertainty triggered by Russia's invasion of Ukraine, while in the second and third quarters – of uncertainty over the prospects of European economy in the context of the energy crisis in Europe, compounded in the third quarter by heightened risk aversion globally amid uncertainty over the prospects of the global economy, policy course to be followed by the main central banks and a resurgence of geopolitical risk. In the fourth quarter, the zloty showed a slight strengthening as concerns of a severe recession in the eurozone subsided and confidence in European assets improved. By the end of December, the PLN/EUR exchange rate stood at 4.69, reflecting a depreciation of 2% compared to the end of 2021. Similarly, the PLN/CHF exchange rate was 4.77, indicating a decrease of 7.2%. The PLN/USD exchange rate was 4.40, representing a decline of 8.4%.

PLN exchange rates



2022 was characterized by significant volatility in yields on Polish treasury bonds. Most of the first half of 2022 saw a continued strong increase in yields under the pressure from rising inflation and expectations of a tighter monetary policy. During the second quarter and the beginning of the third quarter, there were periods of decline in yields on Polish treasury bonds driven by market conditions and a decrease in expectations regarding the extent of monetary tightening by the Monetary Policy Council (MPC). However, as the third quarter progressed, there was a shift in the market sentiment, leading to a resumption of the upward trend in government bond yields. Consequently, yields climbed to local highs ranging from 8.5% to 9.0%, depending on the maturity of the bonds. Finally, in the fourth quarter, on the back of lower bond yields in the underlying markets, a decline in risk aversion and reduced market expectations for NBP rate hikes, yields on Treasury securities fell sharply. At the end of the year, the yield on 2-year bonds was 6.60% (up 330 basis points year on year), while the yield on 10-year bonds was 6.83% (up more than 320 basis points year on year).

2. Factors which will have a bearing on the results at least in the next quarter

The Group's business in 2023 will be affected by macroeconomic factors and the situation in financial markets.

The heightened geopolitical risk resulting from the Russian-Ukrainian war and the economic sanctions imposed by the European Union, the U.S., and other countries on Russia and Belarus is currently the most significant factor shaping the macroeconomic and market situation. This geopolitical risk increases the potential for a crisis in the commodities market, particularly in the energy sector.

This situation is affecting and will continue to affect the Polish economy mainly through the limited availability and high prices of energy carriers.

Overall, the economic consequences of the conflict in Ukraine will include weaker economic activity and increased inflation in Europe and Poland relative to pre-invasion forecasts.

In particular, the heightened geopolitical risk can mean:

- weaker activity of the Polish economy;
- high CPI inflation, fuelled by a global increase in commodity prices;
- increased volatility of prices of Polish financial assets;
- subdued demand for credit in an environment of economic uncertainty and high interest rates.

The higher geopolitical risk in Europe also implies a significant increase in uncertainty as to the macroeconomic and market environment going forward.

On February 16th 2023, the Advocate General of the Court of Justice of the European Union (CJEU) published their Opinion regarding a preliminary question (C-520/21). The question raised pertained to whether banks and consumers have the right to claim additional benefits if a credit agreement is deemed invalid. The next step will be a ruling by the CJEU. The CJEU's ruling will have a significant impact on national jurisprudence and, depending on the wording of the judgment, could have negative consequences for the banking sector.

3. The Group's primary products, services and business areas

3.1. Share of the Bank in the banking sector

As at the end of 2022, the Bank's share in the Polish banking sector (based on PFSA data on the banking sector, including foreign branches) was as follows:

- total assets – 0.8%, with no change relative to the end of 2021,
- non-financial sector deposits – 1.1%, with no change relative to the end of 2021,
- lending products – 0.7% (2021: 0.8%).

3.2. Banking products

The Bank offers products (including deposit, loan, and payment products) for all client groups, as well as products designed specifically for selected groups of the Bank's clients.

The terms and conditions of cooperation with specific client groups are adjusted by the Bank to changing market conditions and the needs of the users of the Bank's products, while taking into account a constant improvement of the efficiency of client service.

Institutional clients

The Bank has a wide range of payment, deposit and credit products, which can be used to build individual offers for each client, tailored to their specific needs. As part of its range of payment products, the Bank offers standard current accounts that serve as payment accounts in domestic and international transactions but are also used to accumulate funds.

There is also a separate offering of bank accounts for institutional clients who are sole traders. The Bank launched the product in the performance of the requirements of the Act Amending Certain Acts to Reduce Regulatory Burdens of July 31st 2019 (the "Act on Reduction of Regulatory Burdens"), which instituted an entrepreneur-consumer.

In the area of payment products, during 2022 the Bank continued work on the SInF Act compliance project. The purpose of the project is to bring the Bank into compliance with the requirements of the SInF Act. The entry into force of the Act will entail a new reporting obligation aimed at preventing money laundering and financing of terrorism. The Act incorporates Directive 2018/843 into Polish law, which will result in the creation of a Financial Information System for collecting, processing and providing access to information on broadly defined open and closed accounts of institutional and retail clients, as well as on safety deposit box services. The Financial Information System is another reporting obligation in the Polish legislation that aims to prevent money laundering and financing of terrorism. Its launch is also intended to contribute to curbing financial crime through the supervision of all accounts by authorised bodies. Bringing the Bank into compliance with the requirements of the Financial Information System Act, will involve implementing changes to the Bank's reporting systems, which at present are used to fulfil reporting obligations under STIR.

In March 2022, free payments were implemented for foundations and associations in response to the situation in Ukraine. This initiative included waiving fees for transfers to banks in Ukraine and allowing free cash deposits as a means of providing assistance to Ukraine.

Credit products for institutional clients

Being fully aware of the need to integrate environmental, social and corporate governance (ESG) factors into risk management and investment policies, the Bank took steps to support global climate change mitigation targets through its lending activities. It implemented a new element into the credit risk assessment process by examining the ESG risk profiles of potential borrowers. In addition, the Bank adopted regulations for the conduct of transactions designed to support the achievement of ESG goals by its clients.

In the area of lending products:

- The Bank offered its clients loans for thermal insulation and renovation projects with a bonus from the Thermal Insulation and Renovation Fund.
- In selected provinces, the Bank offered preferential loans for environmentally-friendly projects in cooperation with the Provincial Funds for Environmental Protection and Water Management.
- The Bank took steps to optimise and automate the lending process, from client acquisition, to assessment of credit application and credit decision-making, to disbursement of funds, credit monitoring and credit administration.
- The Bank continued efforts aimed to implement the EU Regulation concerning benchmark rates – WIBOR, LIBOR, EURIBOR, e.g. through participation in the work on developing measures to replace WIBOR and LIBOR USD with substitute rates.

Local government units

The Bank is expanding its relationships with local government units, mainly municipalities. Thanks to EIB funds received under the ELENA (European Local ENergy Action) initiative, the Bank may co-finance technical documentation drawn up in connection with environmental sustainability projects (such as energy efficiency improvement or street lighting upgrade projects). The Bank has also developed a new loan product for local government units (*EKOpożyczka dla samorządów*) to help them meet the equity contribution requirement for EU grants.

Retail clients

The Bank's offering for retail clients includes all basic products and services available on the Polish banking market (bank accounts, payment products, payment cards, products and services for managing surplus cash, electronic banking services and lending products) as well as a broad range of green products to finance environmentally-friendly solutions, and services to VIP clients provided by dedicated account managers.

With respect to payment cards, the Bank continued to offer editions of debit cards with images of protected species, by which the Bank intends to draw the client's attention to the endangered species of wild animals in Poland as well as wider environmental issues.

In February 2022, through the Bośbank24 mobile application BOŚ S.A. made available to clients the Google Pay service. The new feature enables debit card holders to make contactless payments using their smartphone. The new functionality is provided free of charge, and to access it, users simply need to update the BOŚBank24 application from the Google Play store.

In view of the developments in Ukraine, retail clients were also offered:

- free transfers to banks in Ukraine;
- free cash payments to foundations' and associations' accounts to help Ukraine;
- free debit and credit card transactions in Ukraine.

In the second quarter of 2022, the Bank, in collaboration with Mastercard, launched a promotion to commemorate the Bank's 30th anniversary. The promotion was for the Priceless Moments Programme and was available to both new and existing clients.

In partnership with Mastercard, the Bank promoted cashless transactions, which resulted in strengthening clients' environmental attitudes. This included initiatives to support the protection of rare wildlife and the donation of tree seedlings for reforestation efforts. As part of the promotion, clients were offered additional points in the programme, which they could accumulate and later redeem for various prizes.

On April 6th 2022, the Bank introduced new settlement arrangements for ATM transactions in the Euronet network. Since then, withdrawals from over 7 thousand Euronet devices have been processed and settled through the National Settlement System (KSR). The change has no impact on clients while enabling the Bank to achieve cost savings in the settlement processes for cash transactions made with all cards issued by the Bank.

In September 2022, a new feature called "retention deposit" was introduced on the BOŚBank24 platform. If a user intends to make a fund transfer above a specific threshold outside of BOŚ or decides to terminate a term deposit before maturity, they may receive a notification in the form of a pop-up screen displaying information about the attractive terms of a customized deposit. The functionality is available in both the desktop version and mobile application of the BOŚBank24 system. Furthermore, web positioning has been implemented to enhance the promotion of deposit products and support marketing activities.

Amounts due to retail clients

In 2022, measures taken by the Bank with respect to deposit products for retail clients were aimed at:

- adapting them to the changing market environment;
- maintaining the balance of deposits as needed to meet the Bank's liquidity needs.

The key deposit products for retail clients were:

- current accounts, including personal accounts (*EKOkonto bez Kosztów*), and savings accounts (*EKOkonto Oszczędnościowe*) in PLN,
- promotional term deposits, including *EKOlokata Promocyjna* and *EKOlokata Gwiazdkowa*, standard term deposits and negotiated term deposits.

In 2022, in response to changing market conditions, the Bank focused on promoting *EKOlokata* (under the names *EKOlokata Promocyjna* and *Gwiazdkowa*) and *EKOlokata* 24-monthly to attract retail deposits. The promotion deposits are characterized by a high maximum amount (PLN 500 thousand) and simple terms (the only requirement is the client's consent to receiving electronic communications).

In the first quarter of 2022, the Bank launched a special offer of *EKOkonto Oszczędnościowe bez ograniczeń*, which stood out in the market as a savings account with no additional conditions attached for the client to benefit from a higher interest rate (no requirement to have a checking account or to deposit new funds). The Bank extended the promotion until the end of 2022, adapting the interest rates to changing market conditions while also meeting clients' expectations, positioning the offer as one of the top interest-bearing savings payment accounts. An added feature enhancing its competitive advantage on the market is the absence of additional conditions attached for the client to benefit from a higher interest rate (no requirement to have a checking account or to deposit new funds).

Additionally, in April 2022 the Easy Savings promotion was launched, releasing the holders of *EKOkonto Oszczędnościowe*, *EKOprofit* and *Więcej za Mniej* accounts from fees for internal transfers to a deposit placed by the client in the same relation (the client being its sole holder or joint holder with the same person). This measure supported sales of *EKOlokata Promocyjna* and the management of the deposit portfolio through savings accounts.

In the pursuit of its pro-environmental mission, the Bank also created a promotional offer to help clients take care of the environment as well as their private finances. Besides the attractive interest rates on *EKOlokata Promocyjna*, 24-month *EKOlokata* and negotiated deposits, the Bank made a commitment that, in cooperation with the State Forests, it would plant one tree for each PLN 20 thousand placed on deposit under the 'Forest of Savings' project. The higher the amount placed on deposit, the greater the benefit in the form of a greener and carbon free world. The promotion concluded in September 2022, resulting in the planting of over 200 thousand trees in areas affected by natural disasters.

The Bank's other activities with respect to checking accounts focused on maintaining a transparent offering by retaining the following checking accounts: *EKOkonto bez Kosztów*, *EKOkonto VIP*, *EKOkonto PRP* and *EKOkonto oszczędnościowe* in three currencies: PLN, EUR and CHF.

Credit products for retail clients

The Bank conducted several promotions in the first three quarters to support the sales of Cash Loan products aimed at retail clients:

- For environmental purposes:
 - *Nasza woda* (Our Water), a unique loan product certified with the Climate Leadership label, which supports investments to prevent and mitigate the effects of drought. This offering complements the government's *Moja woda* (My Water) programme and is the only loan product of its kind to receive this certification;
 - *Przejrzysta pożyczka* (Clear Loan), a product to support clients' *EKO*Investments, targeting both the commercial market and clients who are beneficiaries of the government's *Czyste powietrze* (Clean Air) programme;
 - *EKOMobilni*, an offering to finance and promote zero-emission transport, specifically aimed at enabling individuals to purchase various types of green vehicles for personal use, such as electric cars, motorcycles, and scooters;
 - *Energia ze słońca* (Energy from the Sun), an offering specifically designed to finance renewable energy sources, with a primary focus on supporting clients in the purchase and installation of photovoltaic systems.
- For any purpose:
 - *Portfel zapasowy* (Spare Wallet), a cash loan, also offered with insurance products.

In the fourth quarter of 2022, the Bank made modifications to its product offerings by creating two new promotions and consolidating its existing promotional targets. To support ecological initiatives, the Bank introduced a promotion called *Pożyczka zielona* (Green Loan) which enables clients to finance investments in five different categories of eco-investments, including:

- renewable energy sources,
- energy efficiency/thermal upgrading,
- waste management,
- water management/small retention,
- eco-vehicles.

Building on the concept of providing clients with financing options for various purposes through medium-value loans, the Bank introduced a new promotion called *Zimowy czas* (Winter Time) to enhance its cash loan offering. This promotion aims to meet clients' current consumption needs during the winter holiday season. The product is also offered with insurance.

The Bank's offering includes mortgage loans for Large Family Card holders, who are exempted from the arrangement fee or 50% of the arrangement fee with the margin reduced by 0.1 percentage points relative to the standard margin.

The preferential terms of the Bank's offering for the financial sector include a lower commission and margin compared with the standard mortgage loan offering. The offer is intended for employees of:

- banks,
- insurance companies,
- brokerage houses,
- fund management companies,
- other financial sector institutions.

The Bank continues to offer its promotional product designated as *Kredyt hipoteczny bez prowizji* (zero-commission mortgage loan), featuring an arrangement fee waiver for clients who purchase one of two insurance packages from TU Europa S.A. and TU na Życie Europa S.A. providing borrowers with life and loss of income insurance cover, and maintain all marketing consents over the entire lending period. The promotion enhanced the attractiveness and competitiveness of the Bank's mortgage loan products, making them even more appealing to clients.

The most recognisable mortgage product offered by BOŚ is the Green Mortgage Loan. In response to client expectations and the fast changing market conditions, the list of environmental criteria required to be met to obtain a green mortgage loan was revised to align them with the Environmental Risk Assessment Principles.

Credit products for micro-enterprises and housing communities

Throughout 2022, the Bank's permanent offer included loan products specifically designed for micro-enterprises, including sole proprietorships using simplified accounting, as well as housing communities.

In Q4 2022, the Bank made the decision to discontinue offering bank guarantees specifically for micro-enterprises. However, the remainder of the Bank's product offering remains unchanged.

Insurance products and additional services

The Bank provides insurance products as additional offerings alongside its banking services.

In 2022, the Bank provided various insurance products, including coverage for financed assets such as environmental protection equipment and installations, life and health insurance for borrowers, and insurance for payment card holders.

The Bank acts as an insurance agent for six insurance companies. PZU SA, PZU Życie SA, STU ERGO HESTIA SA, STUnŻ ERGO HESTIA SA, TU EUROPA SA and TUnŻYCIE EUROPA SA.

In 2022, the Bank introduced two new insurance policies:

- In collaboration with TUnŻ EUROPA SA and TU EUROPA SA, the Bank offered mortgage insurance to provide protection for the borrower's life and financial support in the event of income loss. This insurance product was named *Hipoteka pod ochroną* (Protected Mortgage);
- In partnership with PZU SA, the Bank offered non-bank product insurance for various eco equipment, including photovoltaic installations (including car charger and battery for photovoltaics), solar installations, central heating boilers, heat pumps, and hybrid heating devices. This insurance product was called *Ubezpieczenie urządzeń eco* (Insurance of eco equipment).

The Bank offers a range of complementary services that generate additional commission income, including Mecenias Direct. Mecenias Direct is a legal assistance service provided to holders of personal accounts, offering professional legal support through email and telephone channels.

BOŚBank24 and iBOSS24 electronic banking

In March 2022, the BOŚ *moje ID* (my ID) service underwent significant changes to enhance the ease and efficiency of clients' interactions with public administration and commercial services.

- The myID electronic identity, also known as BOŚID, was transformed from a one-time electronic identification method into a long-term electronic identification solution, valid for three years;
- Clients can check the status and expiry date of the myID electronic identity (BOŚID) via BOŚBank24.
- Clients can suspend or cancel their myID electronic identity (BOŚID) and review the history of use through their own online banking platform.

As of July 29th 2022, BOŚ enabled clients to apply through electronic banking for a suspension of mortgage payments (so-called "loan repayment holidays") based on the provisions of the Law of July 7th 2022 on Business Crowdfunding and Borrowers Assistance Act.

In September 2022, a new feature called "retention deposit" was introduced on the platform. It is available to clients with remote access to the Bank, and the opening process is fully automated. The retention deposit is presented to clients when they initiate a transfer outside the Bank or when they decide to terminate their existing deposit. The terms of the retention deposit are designed to be preferential, encouraging clients to keep their funds with the Bank.

The Bank has the flexibility to customize the parameters of the retention deposit in various ways. For instance, it can set a minimum transfer value that triggers the presentation of the deposit to a client, or make the deposit available when a client orders a transfer to a specific bank. As a result, a portion of the deposit funds is retained within the Bank. Since the functionality was introduced, a total of 1,573 deposits have been made, amounting to more than PLN 174 million.

The retention deposit continues to be offered in subsequent editions, with parameters approved by the Bank.

Furthermore, web positioning has been implemented to enhance the promotion of deposit products and support marketing activities.

In November 2022, an update was implemented for the myID service to align with the new KIR eID node technical specification version 2.3. The purpose of the modification is to ensure continued compatibility with the specifications of the myID KIR node. As part of the solution, the following changes were implemented in the BOŚBank24 system:

- New assumptions were added to technical attributes: Nationality, Identity document, Expiration date of identity document, Email address;
- Recording of Service Providers' data was added.

Pop-up messages, a new form of communication at BOŚBank24. For selected or all clients, messages are presented in the form of a pop-up window that is displayed after logging into the system. So far, the functionality has been used to display announcements on a new deposit offer and a cash loan. These communications can be personalized, providing relevant information to the client and may require their confirmation through the

authorization method they have chosen. The functionality is designed to enhance client engagement and improve the effectiveness of promoting selected products and services.

3.3. Brokerage business

The year 2022 saw DM BOŚ actively engaged in acquiring new clients. Retirement security accounts, specifically IKE and IKZE, gained significant popularity in 2022, with over 12 thousand new accounts added. Consequently, the total number of open investment accounts reached a record high of 18.2 thousand, marking a substantial increase compared to the 15.5 thousand accounts recorded in 2021. As of the end of December, DM BOŚ maintained a total of 153.7 thousand accounts, with 123.7 thousand of them categorised as stock market accounts.

The client base experienced intensive growth, even in the face of a severe downturn in the domestic stock market and a decline in investor activity. In 2022, all major stock indexes experienced declines, with the WIG index falling 17.1%. During the year, trading on the WSE stock market declined by 8.9%, although the turnover generated by foreign remote stock exchange members saw a 2.1% year-on-year increase. Thus, the overall decrease in investor activity was primarily driven by domestic investors. The NewConnect market witnessed a significant decline in turnover, with a year-on-year decrease of 58.9%. Conversely, there was an increase in investor activity in the futures market, where turnover saw a growth of 48.4%.

Among domestic retail clients, who are the most important group for DM BOŚ, there was a noticeable year-on-year decrease in activity on the equities market. Consequently, the turnover generated by DM BOŚ in trading transactions declined on both the WSE equities market (-33.4% year-on-year) and the NewConnect market (-53.3% year-on-year). However, there was an increase in turnover on the futures market (+22.2% year-on-year).

In 2022, DM BOŚ's share in session trades on the WSE equities market was 2.74%, compared with 3.75% in the previous year. On the futures market, DM BOŚ was the second largest source of trading volume, with a 14.71% share. DM BOŚ also ranked second among all brokers on NewConnect, with a 17.09% share.

The downturn in the domestic capital market also affected the IPO segment of the market. In 2022, shares of a total of eight entities were floated on the main market of the WSE. Notably, all these issuers were previously listed on NewConnect. The aggregate value of the initial offerings on the main market amounted to only PLN 39.7 million in 2022, marking the lowest figure recorded in the past decade. During this period, DM BOŚ was involved as an issue arranger or a syndicate member in a total of four share offerings. These included one initial public offering (IPO) on the main market, one IPO on NewConnect, and two secondary public offerings (SPOs) on the main market of the WSE. In 2022, DM BOŚ facilitated the process of transferring the listing from the NewConnect market to the main market of the WSE for one issuer.

The brokerage house was much more active in the corporate bond market. In this segment, DM BOŚ served as the organizer or a member of the distribution syndicate for a record number of 12 issues involving nine entities. DM BOŚ actively supported the development of the eco-investment financing market. Among the bond offerings, there was one valued at PLN 60 million that stood out as a green issue. This particular bond was issued in compliance with the Green Bond Principles standards.

DM BOŚ continued its cooperation with AgioFunds TFI and Beta Securities Poland S.A. to promote the domestic market for investment certificates. In 2022, DM BOŚ participated in the renewal of the offering for nine Beta ETFs listed on the WSE. Additionally, DM BOŚ also served as a market maker for these ETFs.

In 2022, the range of mutual funds available on the bossafund platform was expanded to include more funds. In total, bossafund currently offers over 300 funds, managed by 21 management companies, making it one of the largest domestic distribution platforms in terms of the number of available funds.

In terms of technological development, DM BOŚ directed its efforts in 2022 towards modernizing and expanding the functionality of all major investment support services and tools. These efforts encompassed various products, including the bossaStaticaTrader trading application, the bossaInfo analytics and information service, the bossaMobile mobile service, and the Vibank online trading service. To enhance the competitiveness of the

brokerage's offering, a key focus was on expanding the functionality of the bossaStaticaTrader application to provide access to prices of foreign equities.

The strong market position and high quality of services provided once again contributed to DM BOŚ winning industry awards. For the third consecutive year, DM BOŚ was ranked first in the 19th edition of the National Investors' Survey carried out by the Polish Association of Retail Investors (SII). The investors' votes won DM BOŚ three stars – the highest possible rating awarded by the SII. More than 4,000 investors participated in the survey. BOŚ DM was awarded the prestigious Invest Cuffs statuette in the "Brokerage 2021" category by the Invest Cuffs Foundation. Additionally, it was recognized as one of the Best Brokerages in 2022 according to the Home&Market monthly publication. DM BOŚ was also honoured with the Order of Finance by Home&Market magazine. This recognition was specifically attributed to DM BOŚ's exceptional financial product, the bossaStaticaTrader trading application, which was singled out as one of the best in its category. As part of the Stock Market Year Summary, DM received the prestigious Annual Award for being recognized as the Market Maker of the Year in the Futures Market. DM was also awarded the Capital Market Hero statuette in the Brokerage House and the Popularizer of the Idea of Long-Term Savings categories.

The outbreak of the war in Ukraine heightened market volatility, which during the initial stage of the conflict led to an increase in activity of DM BOŚ investors, translating into higher income from brokerage fees. However, in the following months, the ongoing conflict in Ukraine firmly entrenched the market downturn, limiting the activity of clients. If the conflict continues, the risk of a potential further downturn on the WSE will rise and the clients' risk aversion may become a permanent trend. If this is the case, the trading volumes of DM clients may continue to gradually decline, affecting the amount of brokerage fees.

3.4 Involvement of the Bank in national and regional operational programmes and in European and national financial mechanisms

Mój Elektryk (My EV) programme

The Bank is implementing an agreement with the National Environmental Protection and Water Management Fund for subsidized leasing of zero-emission vehicles under the "My EV" Priority Programme (PME, Program). The Programme aims to facilitate the acquisition of zero-emission vehicles. As part of the agreement, the Bank was allocated PLN 200 million to subsidise leases of environmentally-friendly vehicles. The funds are available for use in 2021–2023. Until December 31st 2022, the Bank entered into collaboration agreements with 24 leasing companies. The list of the partner companies is available at <https://www.bosbank.pl/moj-elektryk>. The Bank intends to sign more agreements in the first quarter Q1 2023. From December 6th 2021 to December 31st 2022, the Bank received more than 5.7 thousand applications for a total amount of more than PLN 183 million. A total of 3,444 lease-subsidy agreements were signed, amounting to more than PLN 111 million.

By December 31st 2022, the Management Board of the National Environmental Protection and Water Management Fund approved a total of 54 combined applications from the Bank, providing subsidies for 4,927 projects (vehicles). The total amount of subsidies under the approved applications is PLN 159.66 million, representing 79% of the funds made available to BOŚ for 2021–2023.

In January 2023, the Bank submitted another request to the National Environmental Protection and Water Management Fund to increase the pool of funds to PLN 250 million.

ELENA grant

Pursuant to Agreement No. ELENA-2019-157 signed between the Bank and the European Investment Bank (EIB) in February 2022 under the ELENA initiative, the Bank received a grant of EUR 2.6 million.

The grant is intended to finance the following costs:

- cost of the Bank staff involved in the implementation of projects,
- cost of marketing activities undertaken to promote projects,
- cost of the required financial audits to be carried out by the Bank for projects,
- cost of the documentation necessary to execute energy efficiency improvement projects (90% of the costs eligible for financing under the grant).

The grant funds for energy efficiency improvement will be appropriated between project owners who invest in:

- energy upgrades of residential buildings, public utility buildings and buildings constituting corporate property,
- construction and upgrades of district heating networks,
- construction of electric vehicle charging stations,
- street lighting upgrades.

Eligible for support are public sector entities (local government units and municipal companies), housing sector entities (housing cooperatives and housing communities) and businesses (including SMEs).

The grant support entails financing 90% of the cost of the required technical documentation for the implementation of projects in the specified areas.

The support will be distributed along two paths, i.e.:

- reimbursement of 90% of the cost of technical documentation for projects carried out by housing sector entities, available at the Bank as of July 2022,
- co-financing of 90% of the cost of technical documentation for projects implemented in areas other than energy upgrades of residential buildings, available at the Bank as of January 2023.

The objective behind the agreement with the EIB is to support project owners in the execution of projects designed to enhance energy efficiency, its achievement to be measured by the total budgets of projects delivered in the designated areas and specific environmental performance metrics to be achieved over the term of the agreement. The agreement between the BOŚ and the EIB remains in effect until February 28th 2025.

JESSICA initiative

The Bank has entered into agreements with the European Investment Bank (EIB) to manage the Urban Development Fund in the following provinces:

- province of Szczecin, excluding the Szczecin Metropolitan Area – since 2010;
- province of Gdańsk, excluding Tricity and the Słupsk region – since 2011;
- province of Katowice – since 2011.

From the EU funds entrusted with BOŚ (under the regional operational programmes of the 2007-2013 edition), the Bank provided preferential loans for urban projects in 2012-2017. A total of 53 contracts were signed for an amount of PLN 422 million. The principal repaid is PLN 224.8 million, with the current outstanding balance of PLN 197.4 million.

No new financing is being granted; instead, the Bank administers the portfolio of existing facilities.

JEREMIE initiative

Since 2017, BOŚ has been serving as a JEREMIE Financial Intermediary in the province of Szczecin under agreements with the EIB. From the EU funds entrusted to us (under the regional operational programmes of the 2007-2013 edition), in 2017-2018 the Bank provided preferential loans to small and medium-sized companies. On August 28th 2018, the JEREMIE II instrument in the province of Szczecin was completed.

BOŚ S.A. contracted 100% of the funds for projects eligible to receive loans for a total amount of PLN 80 million, including PLN 40 million to be committed by BOŚ S.A. There are currently four facilities are outstanding for a total amount of PLN 65 million, out of which BOŚ funds are PLN 32.6 million.

No new financing is being granted; instead, the Bank administers the portfolio of existing facilities.

BGK portfolio guarantees

In 2022, considering the impact of the COVID-19 pandemic and the ongoing armed conflict in Ukraine, and due to the inability to issue new liquidity guarantees and factoring guarantees under the Liquidity Guarantee Fund, BOŚ entered into two new cooperation agreements with BGK:

- Portfolio Guarantee Line Agreement under the Crisis Guarantee Fund No. 6/PLG-FGK/2022, for the provision of guarantees securing repayment of liquidity support and investment financing loans granted by BOŚ to medium-sized and large enterprises (agreement signed on June 30th 2022);
- Portfolio Factoring Guarantee Line Agreement under the Crisis Guarantee Fund No. 3/LGF-FGK/2022, for the provision of guarantees securing repayment of liquidity support factoring limits granted by BOŚ to small, medium-sized and large enterprises (agreement signed on July 3rd 2022).

BGK portfolio guarantees – active

(PLN thousand)	DE MINIMIS guarantee	FG POIR Businessmax guarantee	PLG FGK guarantee (liquidity – crisis)	LGF FGK guarantee (factoring – crisis)	Czyste Powietrze (Clean Air) guarantee
Allocated limit	1,050,000	447,000	650,000	395,000	28,800
Availability period	August 31st 2023	October 31st 2023	December 31st 2023	December 31st 2023	June 30th 2023
Limit utilisation as at December 31st 2022	940,648	326,380	460,599	85,800	12,868
Limit remaining	109,352	120,620	189,401	309,200	15,932
Amount of facilities secured by new guarantees in 2022	453,980	289,053	657,205	108,000	8,869
Amount of new guarantees issued in 2022	268,628	124,418	456,599	85,800	7,095

Based on BGK-Zlecenia

BGK portfolio guarantees – in administration

(PLN thousand)	COSME guarantee	PLG FGP guarantee (liquidity – COVID)	LGF FGP guarantee (factoring – COVID)
Allocated limit	65,000	2,500,000	406,000
Availability period	April 30th 2022	June 30th 2022	June 30th 2022
Limit utilisation	48,180	1,836,162	390,097
Amount of new guarantees issued in January-June 2022	-	428,190	104,938
Notes:	The term of COSME guarantees can be extended up to the maximum duration specified in the portfolio agreement.	The term of loans and guarantees can be extended up to the maximum duration specified in the portfolio agreement (24 months/27 months).	

Based on BGK-Zlecenia

On June 29th 2022, the Bank signed Portfolio Guarantee Line Agreement under the Government Housing Fund No. 7/PLG-RFM/2022 with BGK, for the provision of guarantees with respect to the down payment requirement and family repayments. The Mieszkanie bez wkładu własnego (Home without down payment) programme of loan guarantees was introduced by the Act on Guaranteed Housing Loans of October 1st 2021 (Dz. U. of 2021, item 2133). The Act entered into force on May 27th 2022, and the programme will be run until the end of 2030. The purpose of the solution proposed by the government is to increase the availability of loans for financing an own home purchase or construction. The scheme is dedicated to borrowers with incomes sufficient to repay a housing loan, but lacking funds to cover the required down payment. Given a massive decline in demand for mortgage loans due, among other things, to the interest rate hike, the implementation of the guaranteed housing loan was initially postponed until the second quarter of 2023.

EBI7 line

On October 28th 2021, the Bank signed another EUR 75 million loan agreement with the EIB. The EIB funds remain available for investment financing for a period of 24 months from the date of the first drawdown under the agreement.

The rules governing the redistribution of loan funds among borrowers are as follows:

- at least 60% of the loan must be used to finance sub-projects implemented by SMEs,
- no more than 25% of the loan can be allocated to sub-projects implemented by MidCaps,
- no more than 15% of the loan can be used to finance sub-projects implemented by public sector entities.

Regardless of the borrower category: at least 50% of the loan should be used to finance green investments.

In 2022, 29 loans were granted from the EBI7 line for a total amount of about PLN 195 million.

Technology Credit and Environmental Credit

On December 29th 2022, the Bank signed a cooperation agreement with Bank Gospodarstwa Krajowego under the program European Funds for Modern Economy 2021-2027 (FENG), Measure 2.30 Technology Credit – Priority 2 Environment for Innovation and Measure 3.1 Green Credit – Priority 3 Greening of Enterprises.

BGK is planning to announce the call for applications for the technology bonus and environmental bonus in the first half of 2023.

PFR Financial Shield 1.0 and PFR Financial Shield 2.0.

The Bank is actively involved in the implementation of the ARKA system, which enables it to accept applications from micro-, small, and medium-sized companies for subsidies under the PFR Financial Shield programme.

The Bank's accession to the system was crucial from the perspective of the Bank's corporate clients, who were facing challenging circumstances due to the impact of the coronavirus pandemic. For many businesses, this provided an opportunity to swiftly acquire the capital needed to sustain liquidity, fulfil financial obligations, compensate employees, and thereby preserve jobs and business continuity.

- Under PFR Financial Shield 1.0, 1,006 applications for financial subsidies totalling PLN 285 million were approved.
- A total of 126 applications for financial subsidies were approved under PFR Financial Shield 2.0, for a total amount of PLN 43.9 million.

The process of settlement of PFR Financial Shield 2.0 subsidies for microenterprises and SMEs took place from November 2021 to June 2022.

In July 2022, PFR made decisions regarding the waiver of repayment for individual subsidies. The process of reviewing complaints regarding the decision to refuse to waive the repayment of individual subsidies is ongoing.

Loans with energy efficiency upgrade and renovation bonuses from BGK

Under a cooperation agreement with BGK, the Bank offers loans for energy efficiency upgrades and renovations to clients in the housing sector, including housing cooperatives, housing communities, and local government units that own housing stock. In 2022, the Bank granted a total of 37 such loans, amounting to over PLN 17.8 million.

Czyste Powietrze (Clean Air) loan

Under a multilateral agreement signed in April 2021 with the National and Provincial Funds for Environmental Protection and Water Management, the Bank offers loans with subsidies to owners or co-owners of single-family houses or separate residential units within those houses as part of the programme. The subsidies are provided to partially repay the principal amount of the loans.

A loan extended under the programme is secured by a *Czyste Powietrze* Guarantee provided by BGK under the Green Guarantee Fund (EFPiG) portfolio guarantee line.

The programme aims to enhance air quality and reduce greenhouse gas emissions by replacing heating sources and improving energy efficiency in single-family residential buildings.

In 2022, the Bank provided 186 loans under the Clean Air Programme for a total amount of about PLN 8.8 million.

Special offer – support for projects under the government's Polish Deal Fund: Strategic Investment Programme

To facilitate the implementation of investments under the government's Polish Deal Fund: Strategic Investment Programme, the Bank introduced a special financing offer for local government units and contractors. The financing can be provided in the form of working capital facilities or investment loans.

During the period from the launch of the offering to the end of 2022, the Bank entered into 22 financing agreements for a total amount of approximately PLN 329 million. As a result, the Bank provided crucial support for approximately 56 investments, with a combined value of PLN 690 million.

3.5. Distinctions and awards in 2022

- In December, BOŚ moved up in the ESG rating. The Bank was assessed by Sustainalytics for the second consecutive year. In 2022, it received an overall ESG Risk rating of 14.2 ("Low Risk").
- In November, the Bank and the Foundation participated in the "DNA - because we have helping in our genes" competition. BOŚ was honoured with an award for its significant contribution in donating essential hygiene products to those in need. The Bank made donations of personal protective equipment to hospices, nursing facilities, and hospital wards nationwide to support their efforts in combating the COVID-19 pandemic. They included seven pallets of disinfectant fluids, totalling 3,780 litres, and 2,200 high-quality protective masks was made. The value of the aid was PLN 150 thousand gross. A similar donation of 2,200 masks was also made by DM BOŚ. The Bank provided financial support to the Polish Social Welfare Committee for the purchase of personal hygiene products and cleaning supplies to assist the homeless. Additionally, the Bank participated in a coordinated campaign by MAP and donated 450 thousand masks to two hospitals in the province of Bydgoszcz.
- In November, five branches of the Bank advanced to the second stage of the competition for the title of "Best Banking Institution in Poland" in the ranking for Institution of the Year.
- In the 7th edition of the '17 Goals' Responsible Film Festival, BOŚ was awarded in the Business category for its corporate film 'We are investing in a green future'. This year, the judges evaluated 40 films in the Business category. The '17 Goals' Responsible Film Festival is Poland's only festival dedicated to documentaries and promotional films revolving around the topics of sustainable development and corporate social responsibility (CSR). The title refers to the UN Agenda and its 17 Global Sustainable Development Goals (SDGs).
- The Bank was awarded the title of 'Responsible Employer – HR Leader 2022'. In the Bank's opinion, the Judging Panel paid particular attention to the following criteria: continued presence on the labour market with an increasingly attractive employee value proposition; an extensive training system in terms of the amount and content of training as well as the number of employees involved; highest standards of the proposed incentive scheme; an impressive scope of corporate social responsibility activities; special focus on employee engagement in the area that is, especially at present, of crucial importance, namely broad-based environmental protection and commitment.
- In June, the Bank was awarded the title of 'Sustainable Finance Leader' by the 'Sustainable Economy Award' judging panel. In the jury's opinion, the Bank is a perfect example of how financial institutions can contribute to sustainable development goals. Also appreciated was the Bank's continuously growing engagement in financing green capital projects, Commitment to green bond issues, and raising awareness among retail and corporate clients about ecology, healthy lifestyle and concern for the environment;
- April 2022 – Bank Ochrony Środowiska was listed third in the 'Cash Loan' and 'Mortgage Loan' categories of the 'Golden Banker' ranking for the pricing terms and flexibility of the offered products.

- May 2022 – as many as 32 BOŚ employees were distinguished during the 58th ceremony of the Polish Bank Association's Certificates of Qualifying Standards in the Polish Banking System, held at the Warsaw Banking Club.
- April 2022 – DM BOŚ received two WSE awards in the derivatives market category: for the most active player in the futures market in 2021, and in the 'Market Maker of 2021' category, for the largest number of underlying instruments in the futures market with respect to which it provides market-making services. Award winners were entities with the best performance in 2021, which significantly contributed to the development of the Polish capital market;
- April 2022 – the Bank was distinguished as 'Financial Brand of 2022' for its consistent support to green transition of the Polish market;
- March 2022 – DM BOŚ won the Invest Cuffs award in the 'Brokerage House of 2021' category, granted by the Invest Cuffs Foundation, and the Finance Order from the editorial board of the Home&Market monthly for the DM BOŚ's new bossaStaticaTrader transaction app, which was recognised as one of the best financial products;
- March 2022 – 17 of the Bank's branches were awarded the title of the 'Best Banking Outlet' in Poland in the 7th edition of the annual 'Institution of the Year' ranking. A year earlier, nine of the Bank's outlets were awarded. The purpose of the ranking is to enhance service quality and meet growing and changing client expectations;
- February 2022 – for the third consecutive year, DM BOŚ was ranked first in the 19th edition of the National Investors' Survey carried out by the Polish Association of Retail Investors (SII). The investors' votes won DM BOŚ three stars – the highest possible rating awarded by the SII.
- January 2022 – the team of DM BOŚ analysts was ranked 3rd in the general classification of the 20th edition of the parkiet.com portal's ranking of analysts. DM BOŚ experts took the 1st place in 5 out of 15 categories.

4. 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.

No.	Lender	Loan amount	Available amount	Currency	Contract date	Principal repayment date
1	Council of Europe Development Bank, Paris	50,000	-	EUR*	March 17th 2008	Tranche 1 April 25th 2023, Tranches 2 and 3 October 25th 2023
2	Council of Europe Development Bank, Paris	50,000	-	EUR	August 3rd 2010	Tranche 1 April 22nd 2025
3	Council of Europe Development Bank, Paris	75,000	-	EUR	March 26th 2012	Tranche 1 July 26th 2021, Tranche 2 October 21st 2022, Tranche 3 December 1st 2023
4	European Investment Bank, Luxembourg	75,000	-	EUR	March 5th 2015	Tranche 1 June 15th 2023, Tranche 2 December 15th 2023
5	European Investment Bank, Luxembourg	75,000	-	EUR	June 13th 2017	Tranche 1 December 15th 2028, Tranche 2 December 15th 2029, Tranche 3 December 15th 2030
6	European Investment Bank, Luxembourg	42,000	33,000	EUR	October 28th 2021	Tranche 1 June 16th 2031, maturity up to 12 years from the date of disbursement
	TOTAL EUR	367,000	33,000			

5. Markets

The Bank operates on the Polish market. The table below presents the geographical distribution of financing sources in the form of retail and institutional deposits taken by the Bank (at nominal amounts, PLN thousand), disaggregated into the Bank's main branches.

Structure, PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Branches in Warsaw, Head Office, Strategic Clients Branch, Private Banking Center, Sales and Client Service Center, Debt Collection	7,280,665	6,987,707	4.2
Branch in Białystok	535,960	408,821	31.1
Branch in Bydgoszcz	995,696	860,425	15.7
Branch in Częstochowa	782,521	673,985	16.1
Branch in Gdańsk	823,849	714,714	15.3
Branch in Katowice	907,687	726,019	25.0
Branch in Koszalin	261,637	243,767	7.3
Branch in Kraków	1,603,824	1,438,026	11.5
Branch in Lublin	945,005	862,453	9.6
Branch in Łódź	574,448	528,186	8.8
Branch in Olsztyn	688,195	726,884	-5.3
Branch in Ostrów Wielkopolski.	277,704	279,673	-0.7
Branch in Poznań	795,588	551,335	44.3
Branch in Rzeszów	816,440	788,619	3.5
Branch in Szczecin	529,563	492,610	7.5
Branch in Wrocław	967,963	1,015,216	-4.7

Companies of the BOŚ S.A. Group do not operate outside Poland

6. Selected data on the Group's business

Selected data on the Group's business, thousand	December 31st 2022	December 31st 2021	Change (%)
BANK OCHRONY ŚRODOWISKA S.A.			
Number of clients	160.5	176.4	-9.0
Number of retail clients	148.9	162.0	-8.1
Number of microenterprise clients	7.7	10.1	-23.8
Number of institutional clients	3.9	4.3	-9.3
Number of clients using electronic channels	101.4	102.8	-1.4
Number of checking accounts ¹⁾	157.6	169.7	-7.1
Debit and credit cards in total	63.1	68.7	-8.2
Number of branches	54	50	8.0
DOM MAKLERSKI BOŚ S.A.			
Number of investment accounts	153.7	135.6	13.3
including online accounts	150.5	132.3	13.8
Number of branches	8	9	-11.1

1) together with the savings accounts

As at December 31st 2022, the Bank operated 54 outlets, including:

- 16 business centres serving corporate and SME clients only,
- 38 branches serving retail clients.

7. Development directions for the Bank

Growth Strategy

The Bank aims to maintain long-term profitability by focusing on key strategic initiatives and reinforcing its position as a specialized green bank. This objective is aligned with its defined mission: "We support green transition in an innovative and effective manner" and vision "We provide comprehensive financing for green transition by offering unique products, dedicated experts and a variety of financial instruments". The Bank's ambition is to further specialise in the financing of green transition projects. The Bank possesses distinctive expertise in both environmental matters and business operations related to financing the broader "green" sector and facilitating the green transition. New financial products are being developed to help clients implement their business projects while respecting natural resources.

The Bank's operations focuses on five key pillars defined in the BOŠ Strategy:

Environment and climate - key objectives:

- Continue to develop competencies in environmental protection, technologies designed to reduce emissions, sector expertise and green financing;
- Provide clients with quality consulting on green transition, taxonomy, relevant technologies and available public financing.

Business model - key objectives:

- Enhance cooperation with partners through digital channels which are perceived as the most convenient by clients and cost-effective for the Bank;
- Provide green transition financing solutions for corporate clients and local government institutions;
- Develop comprehensive advisory services and provide support to corporate clients throughout their investment projects.

Operational efficiency - key objectives:

- Align the operating model with the Bank's new business strategy;
- Optimise key front-office (e.g. loan granting process) and back-office processes.

Organisational culture - key objectives:

- Bring cultural change to the organisation - increase employee engagement and provide opportunities for professional development;
- Implement a new agile and hybrid model of work.

Finance - key objectives:

- Implement sustainably profitable business model and improve the Bank's rating;
- Complete from the Group Recovery Plan;
- Diversify the sources of funding.
- Actively integrate financing from external sources, including long-term financing.

Activities undertaken as part of the Strategy

As part of the operationalisation of the new Strategy, the Bank defined strategic initiatives aimed at its broad transformation.

At the stage of operationalisation, a number of activities were defined for the area of organisational culture. The Management Board's intention is for the Bank to be a modern and flexible organisation, while nurturing its values: respect for others and the environment, commitment, cooperation and professionalism.

Other organisational culture transformation initiatives are: a new set of values proposed to employees along with an incentive system, a culture of dialogue and competence development, and a knowledge sharing culture. In the six months ended June 30th 2022, a job valuation process was completed, new remuneration and bonus rules were adopted, and a new employee evaluation system was put in place. Another Employee Opinion Survey was

conducted in November 2022, with a high 92% response rate. The engagement rate increased by 7 percentage points compared with 2021.

Following an efficiency assessment of the retail network, a decision was made to restructure the sales network and close down some of the Bank's retail outlets: the branches in Bełchatów, Elk, Leżajsk, Nowy Sącz, Nowy Targ, Suwałki and Zawiercie. Affected employees were offered aid packages, some of them also new positions elsewhere at the Bank. At the same time, three new Business Centres opened in Kielce, Opole and Zielona Góra, enabling the Bank to strengthen its regional presence in the business and LGU segments.

Strategy operationalisation efforts focused on detailed analysis of the Bank's product offering. In the first half of 2022, the Bank established a product factory project, introducing new deposit offerings such as a short-term EKOlokata for businesses and a Crisis Guarantee Fund. Additionally, product applications were made available on the Bank's website to facilitate client access. In the second half of 2022, an interactive request for services (used to apply for 'loan repayment holidays' and other services) was implemented as part of the online banking development programme. Also, a client retention deposit and a promotional pop-up campaign for deposit products were launched. The Product Factory is a collection of project flows designed to implement a range of retail and corporate client services that support remote handling and sales through electronic and mobile banking channels. Its main purpose is to actively contribute to the achievement of the Bank's business objectives.

Concurrently, a number of projects were completed with a view to optimising the current processes. Improvements are made in the credit process, such as the deployment of a new tool encompassing process efficiency measures for individual client segments identified in the strategy.

In 2022, work was carried on to deploy a new CRM system. In June, a CRM module for corporate banking was finally implemented, followed by the retail module in November. In the first half of 2023, there are plans to further develop the system, with a particular focus on creating a module to support sales processes in the Call Center. The implementation of the CRM system in the Corporate and Retail areas has streamlined the monitoring of sales opportunities and campaigns for the sales staff. It provides them with real-time visibility into client interactions and enables the development of long-term client relationships.

A new front office system, KONDOR+, has been purchased under one of the strategic initiatives. The implementation of the system has resulted in increased efficiency and quality of client service. It has streamlined liquidity, market, and credit risk management processes by automating various tasks. In late October, the new system was launched, incorporating key functionalities and integration with the existing systems and processes.

8. Key capex projects

In 2022, capital expenditure of the BOŚ Group was PLN 74.7 million, including PLN 62.2 million at the Bank.

In 2022, the Bank carried out more than 30 projects with a total value of PLN 33.1 million, including the key strategic projects mentioned above. The project initiatives encompassed projects of strategic, streamlining, and regulatory nature, aimed at ensuring the Bank's compliance with regulatory requirements. In addition to key strategic projects, the implemented projects included:

- RPA – project aimed to implement a systemic approach to business process robotization (RPA) at the Bank;
- Models-IFRS 9 – the project focuses on revamping the Bank's current model used for measuring credit receivables in accordance with IFRS 9 standards. The project aims to reconstruct the Bank's current IFRS 9 model and adapt the methodologies used in the Pillar and OZIND application processes;
- My EV – the objective of the My EV project is to prepare the Bank to function as a participating entity in collaboration with the National Fund for Environmental Protection and Water Management, specifically within the leasing path of the My EV programme. The scope of the project includes the development of a concept and the implementation of a tool to manage requests from leasing companies and provide subsidies for projects that support the purchase or lease of zero-emission vehicles.

- IDEM – the objective of the project is to implement an integrated system for managing the identity of all BOŚ S.A. employees. This system will provide comprehensive information on the process of granting and revoking authorizations, as well as tracking their use.

In addition, among the various regulatory projects implemented at the Bank, a significant focus was given to the adaptation process in response to the New Recommendation R issued by the PFSA. Design work was initiated to adapt the Bank's systems for handling invoices through the National eInvoicing System (NSEF). In support of operationalising the new strategy, efforts were also made to develop new best project practices. They aim to achieve various objectives, including clarifying the change management process and defining methods for monitoring and evaluating project implementation in conjunction with the HADRONE application.

The HADRONE tool enables the detailed collection of key project information. The aggregation of projects in the tool, in the form of a portfolio, enables the creation of an information base on all ongoing projects in the Bank. The system facilitates the creation of a consistent knowledge base and promotes the exchange of information on ongoing projects at the Bank.

A significant amount of capital expenditure was incurred on the development of the Bank's IT environment, reduction of the technological debt and cyber security – PLN 24.75 million in total.

In 2023, capital expenditure is expected to be higher than in previous years due to the planned implementation of IT projects. It will be financed with the Bank's own funds. The size of planned investments is adequate to the scale of the Bank's operations.

In 2022, DM BOŚ allocated PLN 12.2 million to investment expenditures, primarily to develop the ICT infrastructure and enhance security measures, aiming to provide clients with a high standard of service in financial instruments and commodity markets. DM BOŚ also focused on developing electronic delivery channels and enhancing transaction systems and tools, while ensuring compliance with the evolving infrastructure environment on the markets on which DM BOŚ is present.

The expenditure was financed with the company's own funds.

In 2023, DM BOŚ has planned to allocate capital expenditure primarily towards enhancing client service quality, which includes the development of trading systems, and further strengthening the security of the Brokerage House's IT systems and infrastructure.

9. Organisation of the Group

Structure of the Group

Consolidated subsidiaries of the Group as at December 31st 2022:

Subordinated entities	Registered office	% equity interest	% voting interest	Consolidation method
Dom Maklerski BOŚ S.A.	Warszawa	100%	100%	Full consolidation
BOŚ Leasing - EKO Profit S.A.	Warszawa	100%	100%	Full consolidation
MS Wind sp. z o.o. – indirect subsidiary (subsidiary of BOŚ Leasing-EKO Profit S.A.)	Warszawa	100%	100%	Full consolidation

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

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

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

Director's Report on the operations of the BOŚ Group in 2022

Other companies in which BOŚ S.A. holds equity interest as at December 31st 2022.

- Wodkan Przedsiębiorstwo Wodociągów i Kanalizacji S.A. - 29.48%.
- Polskie Domy Drewniane S.A. – 0.42%.
- Kemipol Sp. z o.o. - 15.03%.

III. FINANCIAL RESULTS AND OPERATIONS

1. Financial results of the Group

1.1. Statement of profit or loss

Statement of profit or loss of the Group, PLN thousand	2022	2021	Change (%)
Interest income and similar income	1,205,878	430,640	180.0
Interest expense and similar charges	-447,538	-56,145	697.1
Net interest income	758,340	374,495	102.5
Fee and commission income	167,992	181,742	-7.6
Fee and commission expense	-40,424	-39,888	1.3
Net fee and commission income	127,568	141,854	-10.1
Dividend income	7,188	6,730	6.8
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	22,878	67,633	-66.2
Gain (loss) on investment securities	-	197	x
Gain (loss) on hedge accounting	119	764	-84.4
Gain (loss) on foreign exchange transactions	36,890	25,300	45.8
Gain (loss) on derecognition of financial instruments	2,070	1,590	30.2
Other income	41,148	35,083	17.3
Other expenses	- 55,697	-43,798	27.2
Effect of legal risk of mortgage loans denominated in foreign currencies	- 144,306	-20,783	594.3
Net impairment losses	- 105,995	-114,094	-7.1
Administrative expenses	- 496,068	-395,702	25.4
Profit (loss) before tax	194,135	79,269	144.9
Income tax expense	- 65,891	-31,813	107.1
Net profit (loss)	128,244	47,456	170.2

In 2022, the BOŚ Group earned a net profit of PLN 128.2 million, compared with PLN 47.5 million reported in 2021.

In 2022, the BOŚ Group generated net interest income of PLN 758.3 million, an increase of PLN 383.8 million, or 102.5%, year on year. In 2022, as a result of the increase in policy interest rates and WIBOR market rates, there was an increase in interest income on loans and securities – a large share of short-term securities linked to interest rates on NBP money bills, reflecting the rates adopted by the Monetary Policy Council. The improvement in the interest margin was driven by the higher yield on interest-earning assets, which was aligned with the size of the Bank's capital. Furthermore, the rate of cost growth was kept low, thanks to the substantial share of current accounts and low-interest deposit products.

Interest and similar income increased by PLN 775.2 million, or 180.0%, in 2022. The increase was mainly due to an increase in interest income from institutional clients of PLN 363.9 million, or 139.3%, an increase in interest on investment debt securities not held for trading of PLN 309.6 million, or 434.9%, in interest income on receivables from banks and Central Bank of PLN 52.5 million, or 848.6%, and an increase in interest income from retail clients

of PLN 35.8 million, or 40.4%. Interest income on amounts due from retail clients was reduced by provisions recognised in respect of the 'loan repayment holidays' scheme enacted by the Business Crowdfunding and Borrowers Assistance Act of July 7th 2022, which introduced, among other things, an option for borrowers to suspend repayment of mortgage loans granted in the Polish currency for up to eight months in 2022–2023 ("loan repayment holidays").

In 2022, the average base interest rate applicable to PLN-denominated credit facilities granted by the Bank (net of the impairment interest adjustment) was 7.84% compared with 3.21% in 2021, and to foreign currency-denominated facilities – 3.34% compared with 2.18% in 2021.

Net interest income, PLN thousand	2022	2021	Change (%)
Interest and similar income:	1,205,878	430,640	180.0
Amounts due from banks and the central bank	58,662	6,184	848.6
Amounts due from institutional clients	625,218	261,305	139.3
Amounts due from retail clients	124,427	88,602	40.4
Non-trading investment debt securities	380,822	71,196	434.9
Financial instruments held for trading	4,451	3,353	32.7
Hedging transactions	12,298	-	x
Interest expense and similar charges on:	447,538	56,145	697.1
Bank accounts and deposits from banks	3,538	973	263.6
Bank accounts and deposits from institutional clients	171,285	4,698	3,545.9
Bank accounts and deposits from retail clients	236,793	27,583	758.5
Borrowings from clients	2,360	159	1,384.3
JESSICA lending support funds	885	64	1,282.8
Financial instruments – own debt securities	28,657	12,152	135.8
Hedging transactions	-	6,433	-100.0
Lease liabilities	4,001	4,080	-1.9
Other	19	3	533.3
NET INTEREST INCOME	758,340	374,495	102.5

Interest expense and similar charges increased by PLN 391.4 million, or 697.1%, on 2021, driven mainly by higher interest costs on retail loans by PLN 209.2 million, or 758.5%, and costs of institutional accounts and deposits by PLN 166.6 million, or 3,545%. Costs of financial instruments (own debt securities) rose by PLN 16.5 million, or 135.8%, whereas costs of hedging transactions decreased by PLN 6.4 million.

The increase in interest expense was mainly attributable to higher interest rates on deposits. The average base interest rate on deposits placed with the Bank branches in January 1st to December 31st 2022 was as follows:

- 3.04%, compared with 0.23% in 2021, for PLN deposits,
- 0.16%, compared with 0.15% in 2021, for foreign currency deposits.

Net fee and commission income, PLN thousand	2022	2021	Change (%)
Fee and commission income	167,992	181,742	-7.6
Brokerage service fees	86,396	100,456	-14.0
Fees for maintaining client accounts, other domestic and international settlement transactions	35,901	36,717	-2.2
Commission fees on credit facilities	38,330	37,677	1.7
Commission fees on guarantees and letters of credit	6,865	6,355	8.0
Fees for portfolio management services and other management fees	494	532	-7.1
Other fees	6	5	20.0
Fee and commission expense	40,424	39,888	1.3
Brokerage fees, including:	30,269	29,023	4.3
for custody services	662	651	1.7
Payment card fees	7,790	7,199	8.2
Current account fees	1,014	1,675	-39.5
ATM service charges	513	1,225	-58.1
Fees on amounts due from clients	96	138	-30.4
Other fees	742	628	18.2
TOTAL NET FEE AND COMMISSION INCOME	127,568	141,854	-10.1

The Group's net fee and commission income was PLN 127.6 million, which means a decrease of PLN 14.3 million, or 10.1%, year on year, attributable to a decrease in fee and commission income and an increase in fee and commission expense.

Specifically, there was a decline in fee and commission income from brokerage services – down PLN 14.1 million (14.0%). Commission fees on loans grew by PLN 0.7 million, or 1.7%, and on guarantees and letters of credit by PLN 0.5 million, or 8.0%.

Fee and commission expense increased by PLN 0.5 million, or 1.3%, Driven mainly by higher brokerage fees (up by PLN 1.2 million, or 4.3%).

Gain (loss) on financial instruments measured at fair value through profit or loss was PLN 22.9 million, compared with PLN 67.6 million in 2021. The decrease was primarily due to a lower result from Dom Maklerski BOŚ in this area.

In 2022, dividend income was PLN 7.2 million, compared with PLN 6.7 million in 2021. The main contributor was dividend from Kemipol sp. z o.o., which amounted to PLN 6.7 million, compared with PLN 6.3 million in 2021.

Gain (loss) on foreign exchange transactions stood at PLN 36.9 million, compared with PLN 25.3 million in 2021, with the change attributable mainly to the remeasurement of provisions.

The effect of legal risk of mortgage loans denominated in foreign currencies was PLN 144.3 million, compared with PLN 20.8 million in 2021. The increase in this item is attributed to the adoption of more conservative parameters for estimating provisions and a change in the accounting policy for presenting the legal risk provision. In line with the applied policy, for active loans, the provision is recognized as an adjustment (reduction) of the gross carrying amount of loans in accordance with IFRS 9. The policy change resulted in the release of some impairment charges and an increase in the cost of legal risk of mortgage loans.

In 2022, impairment losses were PLN -106.0 million, compared with PLN -114.1 million in 2021.

Administrative expenses of the Group went up by PLN 100.4 million, or 25.4%, relative to 2021, due mainly to the recognition of additional contributions to the Borrowers' Support Fund totalling PLN 38.4 million.

Administrative expenses, PLN thousand	2022	2021	Change (%)
Employee benefits	228,735	191,142	19.7
Administrative expenses, including:	204,600	148,717	37.6
material expenses	123,637	111,402	11.0
taxes and charges	9,176	7,254	26.5
contribution and payments to BGF	30,012	27,073	10.9
contribution and payments to PFSA	3,131	2,761	13.4
contribution to Borrowers' Support Fund	38,358	-	x
contribution to cover operating expenses of the Financial Ombudsman	195	136	43.4
contribution to Chamber of Brokerage Houses (Izba Domów Maklerskich, IDM)	91	91	-
Amortization and depreciation, including:	62,733	55,843	12.3
depreciation of property, plant and equipment	15,561	13,503	15.2
amortisation of intangible assets	30,442	27,200	11.9
depreciation of rights-of-use assets	16,730	15,140	10.5
TOTAL ADMINISTRATIVE EXPENSES	496,068	395,702	25.4

A significant driver of administrative expenses were higher salaries and wages, which increased PLN 37.6 million, or 19.7%. In 2022, the Bank completed a job evaluation process, with one of its objectives being to link compensation in individual jobs to current market benchmarks.

Administrative expenses also increased due to higher contributions to the Bank Guarantee Fund, up PLN 2.9 million, or 10.9%.

As at December 31st 2022, the Bank employed 1,210 persons (FTEs), compared with 1,158 at the end of 2021. The deadcount rose by 4.5% at the Bank and 14.9% at the subsidiaries relative to year-end 2021. The table below presents employment (FTEs) at the Bank and its subsidiaries. The headcount at the BOŚ Group increased 6.5% relative to year-end 2021.

Employment, full-time equivalents	December 31st 2022	December 31st 2021	Change (%)
Employment at BOŚ S.A.	1,210	1,158	4.5
Employment at subsidiaries	316	275	14.9
EMPLOYMENT AT THE BOŚ GROUP	1,526	1,433	6.5

Efficiency and security of the Group's operations

Interest margin on total assets, calculated as the ratio of net interest income to average assets, was 3.6%, compared with 1.8% in 2021. For the most part, the improvement was attributable to an increase in the average interest rate on loans resulting from the interest rate rises implemented by the Monetary Policy Council, as well as higher return on interest-earning assets and deposit margins on current accounts, despite a negative impact of the provision for 'loan repayment holidays'.

Presented below are the key profitability and efficiency ratios for the Group, with calculation methodology.

Ratios and indicators	2022	2021	Change in percentage points
Return on equity (ROE) ¹	6.7	2.5	4.2
Return on assets (ROA) ²	0.6	0.2	0.4
Interest margin on total assets ³	3.6	1.8	1.8
Risks costs ⁴	-0.8	-0.8	0.0
Cost/income (C/I) ⁵	52.9	64.9	-12.0

1) net profit to average equity,

2) profit to average assets,

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

4) net impairment losses including measurement at fair value for the last 12 months to the average amount of the loan portfolio during period,

5) Total administrative expenses and costs of use to net interest income, net fee and commission income, dividend income, gain (loss) on financial instruments measured at fair value through profit or loss net of valuation of receivables, gain (loss) on investment securities, gain (loss) on hedge accounting, gain (loss) on foreign exchange transactions and gain (loss) on other operations.

The cost/income ratio in 2022 was 52.9%, compared with 64.9% in 2021, mainly as a result of income growing faster than administrative expenses.

Capital ratios

Capital ratios	December 31st 2022	December 31st 2021	Change in percentage points
Common equity Tier 1 capital ratio	14.11	13.26	0.85
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	13.92	12.89	1.03
Tier 1 capital ratio	14.11	13.26	0.85
Tier 1 capital ratio – without IFRS 9 transitional provisions	13.92	12.89	1.03
Total capital ratio	14.95	14.61	0.34
Total capital ratio – without IFRS 9 transitional provisions	14.76	14.24	0.52

As at December 31st 2022, the minimum capital ratios recommended by the Polish Financial Supervision Authority were 9.84% for Tier 1 capital ratio and 11.84% for the TCR ratio.

The capital adequacy ratio of the Group as at December 31st 2022 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional provisions.

1.2. Statement of financial position of the Group

As at December 31st 2022, the Group's total assets stood at PLN 22,006.2 million, having increased by 8.8% on December 31st 2021.

Changes in the structure of the Group's assets

As at December 31st 2022, at 50.6%, amounts due from clients had the highest share in total assets. Their share in assets has decreased by 6.3 percentage points from the end of 2021, while the share of investment securities and cash and balances with central bank increased by 5.8 percentage points and 0.8 percentage points, respectively.

Assets PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Cash and balances at central bank	575,875	361,581	59.3
Amounts due from banks	242,831	400,747	-39.4
Financial assets held for trading	263,259	155,705	69.1
Derivative hedging instruments	30,562	9,121	235.1
Investment securities:	9,008,118	7,108,931	26.7
Amounts due from clients, including:	11,125,827	11,499,466	-3.2
measured at amortised cost	11,122,777	11,485,355	-3.2
measured at fair value through profit or loss	3,050	14,111	-78.4
Intangible assets	132,983	112,861	17.8
Property, plant and equipment	91,670	84,082	9.0
Right of use – leases	65,839	78,538	-16.2
Tax assets:	175,900	151,072	16.4
Other assets	293,317	267,455	9.7
TOTAL ASSETS	22,006,181	20,229,559	8.8

Amounts due from clients

The carrying amount of amounts due from clients of the Group at the end of 2022 was PLN 11,125.8 million, a decrease of 3.2% on December 31st 2021. Amounts due from retail clients measured at amortised cost decreased by PLN 329.4 million, or 11.3%. The change in this item is attributed to a change in the accounting policy for presenting the legal risk provision.

Amounts due from institutional clients measured at amortised cost accounted for the highest share of total amounts due from clients, at 76.3%. Their share increased by 2.1 percentage points on year-end 2021. Amounts due from institutional clients measured at amortised cost were PLN 8,490.9 million. Amounts due from institutional clients measured at amortised cost increased by PLN 38.5 million, or 0.5%.

The share of amounts due from retail clients measured at amortised cost in total amounts due decreased by 2.1 percentage points, to 23.3%. The amount of retail loans measured at amortised cost was PLN 2,589.0 million at year-end 2022, compared with PLN 2,918.5 million at year-end 2021.

Amounts due from clients, PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Measured at amortised cost	11,079,957	11,447,837	-3.2
Amounts due from retail clients	2,589,036	2,918,461	-11.3
overdraft facilities	745	224	232.6
cash loans	231,292	300,926	-23.1
housing loans	2,132,105	2,377,223	-10.3
other credit facilities	224,894	240,088	-6.3
Amounts due from institutional clients	8,490,921	8,529,376	-0.5
working capital facilities	796,262	648,741	22.7
term facilities	6,590,720	6,771,966	-2.7
factoring receivables	552,199	599,966	-8.0
lease receivables	196,949	136,642	44.1
purchased receivables	91,923	127,311	-27.8
commercial paper	262,868	244,750	7.4
Measurement at fair value through profit or loss	3,050	14,111	-78.4
Amounts due from retail clients	270	651	-58.5
overdraft facilities	9	-	x
housing loans	99	257	-61.5
other credit facilities	162	394	-58.9
Amounts due from institutional clients	2,780	13,460	-79.3
working capital facilities	-	19	x
term facilities	2,780	13,441	-79.3
Total	11,083,007	11,461,948	-3.3
Security deposits	36,251	32,768	10.6
Other amounts due from clients	6,569	4,750	38.3
TOTAL AMOUNTS DUE FROM CLIENTS	11,125,827	11,499,466	-3.2

Housing loans are the largest item among retail loans measured at amortised cost. As at year-end 2022, they amounted to PLN 2,132.1 million, having decreased by 10.3% on December 31st 2021.

Housing loans

Housing loans, PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Loans measured at amortised cost	2,132,105	2,377,223	-10.3
Housing loans in PLN	1,267,780	1,408,758	-10.0
Housing loans in CHF	368,950	449,424	-17.9
Housing loans in EUR	467,772	490,840	-4.7
Housing loans in USD	27,603	28,201	-2.1
Loans measured at the fair value through profit or loss	99	257	-61.5
Housing loans in PLN	99	257	-61.5
TOTAL HOUSING LOANS	2,132,204	2,377,480	-10.3

The primary reason for the decrease in the balance of housing loans is the changes in accounting rules related to the presentation of the provision for legal risk of foreign currency loans. In line with the applied policy, for active loans, the provision is recognised as an adjustment (reduction) of the gross carrying amount of loans in accordance with IFRS 9. Where the provision exceeds the carrying amount of the loan and where it relates to a repaid loan, it is recognised as a liability in accordance with IAS 37. The provision covers costs associated with the assumed

scenarios of resolution of the issue of mortgage loans tied to foreign exchange rates, i.e.,; reaching out-of-court settlements with clients or unfavourable court rulings. Another reason for the decline was limited client interest in housing loans amid high interest rates and expectations of an economic slowdown.

Foreign currency loans accounted for 40.5% of total housing loans (40.7% at year-end 2021). The share of housing loans denominated in CHF in the total loan portfolio of the Group (net) was 3.3%, having decreased by 0.6 percentage point on year-end 2021.

Balance of green loans

The balance of green loans as at December 31st 2022 was 5,089 million, an increase of 6.9% on December 31st 2021. Green loans accounted for 40.79% of the Bank's total lending portfolio (vs 37.12% as at December 31st 2021).

Green loans, PLN thousand	December 31st 2022	December 31st 2021	Change
Green loans to institutional clients	4,633,835	4,256,415	8.9%
Green loans to retail clients	454,832	503,238	-9.6%
GREEN LOANS	5,088,668	4,759,653	6.9%

*by principal amount

Loan sales

Loan sales PLN thousand	2022	2021	Change (%)
Loans provided to institutional clients during the year	3,618,192	3,822,607	-5.3
Loans provided to retail clients during the year	114,919	374,107	-69.3
LOANS MADE DURING THE YEAR	3,733,111	4,196,713	-11.0

From January 1st to December 31st 2022, the BOŚ Group advanced loans of PLN 3.7 billion, 11.0% less year on year. The decrease in new loans was driven mainly by a drop in mortgage loans as clients were reluctant to incur new obligations and their borrowing capacity fell given high interest rates.

Green loans accounted for 43.4% of total loan sales in 2022.

Sale of green loans

Green loans, PLN thousand	2022	2021	Change
Loans provided to institutional clients during the year	1,581,444	1,501,518	5.3%
Loans provided to retail clients during the year	40,865	168,129	-75.7%
GREEN LOANS ADVANCED DURING THE REPORTING PERIOD	1,622,309	1,669,646	-2.8%

*by principal amount

The amount of new green loans granted in 2022 was PLN 1.6 billion, 2.8% less than in 2021. The decline was primarily driven by a significant reduction in sales of green mortgages, mirroring the overall mortgage market, which experienced a significant decline in 2022 due to high interest rates. The vast majority (in value terms) of the new green loans were made to institutional clients (97%). The largest portion of the funds was allocated to projects in the energy and municipal sectors, accounting for 34% of the total volume of green loans, followed by the manufacturing, which also accounted for 34% of the total volume of green loans.

Sale of receivables

In 2022, the Bank successfully sold a loan portfolio with a total balance of approximately PLN 162.9 million (including the principal of PLN 52.4 million) and a carrying amount of PLN 62.13 million. Only the corporate part of the portfolio was sold, i.e. Bank's receivables from partnerships and companies, from partners of civil-law and general partnerships. The impact of the sale on the Bank's net profit was PLN 4 million.

Quality of the Group's loan portfolio

Quality of the loan portfolio, PLN thousand	December 31st 2022	%	December 31st 2021	%
Amounts due from clients measured at amortised cost				
Amounts due from clients without indications of impairment, including:	10,375,799	85.1	10,873,199	86.5
<i>exposures without significant credit risk increase since initial recognition (Bucket 1)</i>	9,301,183	76.3	9,630,276	76.6
<i>exposures with significant increase in risk since initial recognition (Bucket 2)</i>	1,074,616	8.8	1,242,923	9.9
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	-		22,382	0.2
Amounts due from clients with indication of impairment, impaired (Bucket 3)	1,813,402	14.9	1,674,882	13.3
Total amounts due from clients measured at amortised cost (gross)	12,189,201	100.0	12,570,463	100.0
Impairment losses on:				
<i>amounts due from clients – (Bucket 1)</i>	-97,079		- 88,097	
<i>amounts due from clients – (Bucket 2)</i>	-57,275		- 80,534	
<i>amounts due from clients – (Bucket 3) with no indication of impairment</i>	-		- 588	
<i>amounts due from clients – (Bucket 3) with indication of impairment</i>	-954,890		- 953,407	
Total impairment losses	-1,109,244		- 1,122,626	
Total amounts due from clients measured at amortised cost (net)	11,079,957		11,447,837	
Amounts due from clients measured at fair value through profit or loss				
Fair value	3,050		14,111	
Total amounts due from clients measured at fair value through profit or loss	3,050		14,111	
Security deposits	36,251		32,768	
Other amounts due from clients	6,569		4,750	
TOTAL AMOUNTS DUE FROM CLIENTS	11,125,827		11,499,466	

As at December 31st 2022, impairment losses were PLN 1,009.2 million. As of December 31 2022, the percentage of impaired amounts due from clients in the entire portfolio measured at amortized cost was 14.9%, compared with 13.3% at the end of 2021.

Equity and liabilities of the Group

As at the end of 2022, amounts due to clients represented the largest share (85.5%) of total equity and liabilities. The share increased by 1.5 percentage points compared with the share as at December 31st 2021. There was also an increase in the share of financial liabilities held for trading by 0.2 percentage point.

Equity was PLN 1,964.1 million at year-end 2022, having increased by PLN 98.3 million, or 5.3%. The increase was mainly attributable to the current year net profit, despite a negative effect of a downward revaluation of securities measured at fair value through other comprehensive income, gross, reflecting the increase in market interest rates.

Equity and liabilities of the Group, PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Amounts due to central bank and other banks	141,143	420,389	-66.4
Financial liabilities held for trading	152,977	99,659	53.5
Amounts due to clients	18,820,809	17,007,863	10.7
Subordinated liabilities	345,035	369,107	-6.5
Provisions	165,458	94,622	74.9
Tax liabilities	449	8,810	-94.9
Lease liabilities	67,928	81,170	-16.3
Other liabilities	348,244	282,144	23.4
Total equity	1,964,138	1,865,795	5.3
TOTAL EQUITY AND LIABILITIES	22,006,181	20,229,559	8.8

Sources of funding of the Group

Amounts due to clients, PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Retail clients	10,120,218	8,515,701	18.8
current/checking accounts	4,270,044	4,942,698	-13.6
term deposits	5,850,174	3,573,003	63.7
Institutional clients	7,944,141	7,799,099	1.9
current/checking accounts	5,645,340	6,255,578	-9.8
term deposits	2,298,801	1,543,521	48.9
Other clients	118,584	84,032	41.1
Borrowings from international financial institutions	589,675	510,954	15.4
Lending support funds	48,191	98,077	-50.9
TOTAL LIABILITIES	18,820,809	17,007,863	10.7

The main source of financing the Group's activities were amounts due to clients, including:

- deposits obtained through the Bank's outlets,
- borrowings from international financial institutions,
- funds provided by external donors for lending activity in the form of direct facilities, interest subsidies or contributions to equity (National Fund for Environmental Protection and Water Management, Provincial Funds for Environmental Protection and Water Management, European Fund for the Development of Polish Villages and JESSICA – Urban Development Fund).

As at December 31st 2022, the Group's amounts due to clients were PLN 18,820.8 million, having increased PLN 1.8 billion, or 10.7%, on year-end 2021.

Amounts due to retail clients increased by PLN 1.6 billion, or 18.8%, in 2022. The increase in this item was attributable to an increase (from June 2022) of the interest rates offered on the 3-, 6- and 12-month EKOlókata Promocyjna term deposits, distributed via electronic channels and the Bank's branch network, as well as the interest rate on EKOkonto Oszczędnościowe savings accounts.

Amounts due to institutional clients increased by PLN 145.0 million, or 1.9%.

Obtained borrowings, sureties and guarantees not related to the Group's operating activities

In 2022, the Group did not take out any credit facilities or sign any borrowing, surety or guarantee agreements not related to its business.

1.3. Contingent assets and contingent liabilities of the Group

Contingent assets and contingent liabilities of the Bank , PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Contingent liabilities:	3,138,890	3,264,122	-3.8
Financial, including:	2,672,372	2,814,089	-5.0
open credit lines, including:	2,657,528	2,793,138	-4.9
revocable	2,195,331	2,337,580	-6.1
irrevocable	462,197	455,558	1.5
open import letters of credit	14,844	20,951	-29.1
Guarantees, including:	466,518	450,033	3.7
credit repayment sureties and guarantees	12,739	12,739	0.0
performance bonds	453,779	437,294	3.8
Contingent assets:	2,167,513	2,143,824	1.1
Financial, including:	154,767	344,955	-55.1
open lines of credit	154,767	344,955	-55.1
Guarantees	2,010,194	1,781,345	12.8
Other	2,552	17,524	-85.4

Total contingent liabilities of the Group as at December 31st 2022 were PLN 3,138.9 million, including financial liabilities of PLN 2,672.4 million.

As at December 31st 2022, total outstanding guarantees and sureties provided by the Bank, disclosed off-balance sheet, were PLN 466.5 million, of which:

- all guarantees were provided by the Bank to residents,
- in value terms, most of the guarantees (76.6%) were domestic performance bonds (34.5%), other domestic guarantees (15.1%), domestic advance payment guarantees (14.0%), and domestic payment guarantees (13.0%).
- in value terms, most of the guarantees (81.7%) were domestic performance bonds (39.8%), other domestic guarantees (21.8%), and domestic payment guarantees (20.0%).

As at December 31st 2022, the guarantees were issued at the request of (in value terms):

- non-financial entities – 99.5%
- central and local government institutions – 0.4%
- 0.1% – retail clients.

As at December 31st 2022, the total amount of guarantees increased by PLN 16,5 thousand, or +3.7%, year on year.

Sureties and guarantees granted and obtained in the financial year

In 2022, the Bank provided 126 guarantees and sureties for a total amount of PLN 346.2 million, of which 87 guarantees and sureties for a total amount of PLN 148.7 million were outstanding as at December 31st 2022 (2021: 162 guarantees and sureties provided for a total amount of PLN 183.2 million, of which 112 guarantees and sureties for a total amount of PLN 173.3 million were outstanding as at December 31st 2021).

Maturities of the outstanding guarantees and sureties were as follows (in value terms):

- from 1 month to 3 years – 82.0%,
- more than 5 years – 10.9%,
- 3 to 5 years – 7.1%.

2. Financial results of the Bank

2.1. Statement of profit or loss of the Bank

Statement of profit or loss of the Bank, PLN thousand	2022	2021	Change (%)
Interest and similar income, including:	1,198,582	423,307	183.1
Interest expense and similar charges, including:	-527,642	-58,934	795.3
Net interest income	670,940	364,373	84.1
Fee and commission income	82,766	83,703	-1.1
Fee and commission expense	-10,061	-10,794	-6.8
Net fee and commission income	72,705	72,909	-0.3
Dividend income	6,924	6,527	6.1
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	-2,658	20,222	x
Gain (loss) on investment securities	-	197	-100.0
Gain (loss) on hedge accounting	119	764	-84.4
Gain (loss) on foreign exchange transactions	36,706	25,257	45.3
Gain (loss) on derecognition of financial instruments	2,070	1,590	30.2
Other income	16,608	16,968	-2.1
Other expenses	-24,946	-30,190	-17.4
Effect of legal risk of mortgage loans denominated in foreign currencies	-144,306	-20,783	594.3
Net impairment losses	-100,634	-105,488	-4.6
Administrative expenses	-384,403	-300,022	28.1
Share of profit (loss) of equity-accounted entities	36,787	21,567	70.6
Profit before tax	185,912	73,891	151.6
Income tax expense	-58,304	-25,177	131.6
NET PROFIT	127,608	48,714	162.0

In 2022, the Bank earned a net profit of PLN 127.6 million, compared with a net profit of PLN 48.7 million in 2021.

The Bank generated interest income of PLN 670.9 million, an increase of PLN 306.6 million, or 84.1%, on 2021. Interest and similar income increased by PLN 775.3 million, or 183.1% year on year, mainly due to an increase in interest income on amounts due from institutional clients by PLN 364.2 million, or 143.4%. Interest income from non-trading investment debt securities increased by PLN 309.6 million, or 434.9%, and interest income on amounts due from banks and Central Bank increased by PLN 52.3 million. On the other hand, interest income on amounts due from retail clients increased by PLN 35.8 million, or 40.4%. It was partially offset by the provisions recognised for “loan repayment holidays”.

Interest expense increased by PLN 468.7 million, or 795.3%, on 2021, driven mainly by an increase in costs of bank accounts and deposits from institutional clients, which increased by PLN 247.5 million, or 3,173.4%. Costs of bank accounts and deposits from retail clients fell by PLN 205.7 million, or 748.5%. Costs of financial instruments (own debt securities) increased by PLN 16.5 million, or 135.8%.

Net interest income, PLN thousand	2022	2021	Change (%)
Interest and similar income:	1,198,582	423,307	183.1
Amounts due from banks and the central bank	58,483	6,184	845.7
Amounts due from institutional clients	618,176	254,003	143.4
Amounts due from retail clients	124,427	88,602	40.4
Non-trading investment debt securities	380,822	71,196	434.9
Financial instruments held for trading	4,376	3,322	31.7
Hedging transactions	12,298	-	x
Interest expense and similar charges on:	527,642	58,934	795.3
Bank accounts and deposits from banks	3,538	890	297.5
Bank accounts and deposits from institutional clients	255,293	7,799	3,173.4
Bank accounts and deposits from retail clients	233,216	27,487	748.5
Borrowings from clients	2,360	159	1,384.3
JESSICA lending support funds	885	64	1,282.8
Financial instruments – own debt securities	28,657	12,152	135.8
Hedging transactions	-	6,433	-100.0
Lease liabilities	3,693	3,950	-6.5
NET INTEREST INCOME	670,940	364,373	84.1

The Bank's net fee and commission income was PLN 72.7 million, having decreases by PLN 0.2 million, or 0.3%, relative to 2021, due to a higher decrease in fee and commission income (PLN 0.9 million) than costs (PLN 0.7 million).

The Bank reported a PLN 0.8 million (2.0%) increase in fee and commission income on bank borrowings, a PLN 0.5 million (8.0%) increase in guarantee and letter of credit fees, which however did not offset a PLN 2.2 million, or 5.6%, decrease in fees for maintaining client accounts.

Net fee and commission income, PLN thousand	2022	2021	Change (%)
Fee and commission income	82,766	83,703	-1.1
Fees for maintaining client accounts, other domestic and international settlement transactions	37,379	39,585	-5.6
Commission fees on credit facilities	38,516	37,758	2.0
Commission fees on guarantees and letters of credit	6,865	6,355	8.0
Other fees	6	5	20.0
Fee and commission expense	10,061	10,794	-6.8
Payment card fees	7,790	7,199	8.2
Current account fees	1,014	1,675	-39.5
ATM service charges	513	1,225	-58.1
Fees on amounts due from clients	96	97	-1.0
Other fees	648	598	8.4
TOTAL NET FEE AND COMMISSION INCOME	72,705	72,909	-0.3

In 2022, dividend income was PLN 6.9 million, compared with PLN 6.5 million in 2021. The main contributor was dividend from Kemipol sp. z o.o., which amounted to PLN 6.7 million, compared with PLN 6.3 million in 2021.

Gain (loss) on financial instruments measured at fair value through profit or loss was PLN -2.6 million, compared with PLN 20.2 million in 2021.

The effect of legal risk of mortgage loans denominated in foreign currencies was PLN 144.3 million, compared with PLN 20.8 million in 2021. The increase in this item is primarily attributed to the adoption of more conservative parameters for estimating provisions and a change in the accounting policy for presenting the legal risk provision.

Director's Report on the operations of the BOŚ Group in 2022

In 2022, impairment losses were PLN -100.6 million, compared with PLN -105.5 million in 2021.

The Bank's administrative expenses increased by PLN 84.4 million, or 28.1%, relative to 2021, mainly due to the costs of contributions to the Borrowers' Support Fund of PLN 38.4 million and a PLN 29.7 million, or 21.3%, increase in salaries and wages.

Administrative expenses, PLN thousand	2022	2021	Change (%)
Employee benefits	168,990	139,300	21.3
Administrative expenses, including:	164,824	115,259	43.0
material expenses	90,470	82,169	10.1
taxes and charges	5,725	3,720	53.9
contribution and payments to BGF	27,597	26,953	2.4
contribution and payments to PFSA	2,498	2,297	8.8
contribution to Borrowers Support Fund*	38,358	-	x
contribution to cover operating expenses of the Financial Ombudsman	176	120	46.7
Amortization and depreciation, including:	50,589	45,463	11.3
depreciation of property, plant and equipment	9,598	8,133	18.0
amortisation of intangible assets	26,430	24,265	8.9
depreciation of rights-of-use assets	14,561	13,065	11.5
TOTAL ADMINISTRATIVE EXPENSES	384,403	300,022	28.1

Efficiency and security of the Bank's operations

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

Financial ratios	2022	2021	Change in percentage points
Return on equity (ROE) ¹	6.7	2.6	4.1
Return on assets (ROA) ²	0.6	0.2	0.4
Interest margin on total assets ³	3.2	1.8	1.4
Risks costs ⁴	-0.8	-0.8	0.0
Cost/income (C/I) ⁵	49.5	62.7	-13.2

1) net profit to average equity,

2) profit to average assets,

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

4) net impairment losses including measurement at fair value for the last 12 months to the average amount of the loan portfolio during period,

5) total administrative expenses and costs of use to net interest income, net fee and commission income, dividend income, gain (loss) on financial instruments measured at fair value through profit or loss net of valuation of receivables, gain (loss) on investment securities, gain (loss) on hedge accounting, gain (loss) on foreign exchange transactions and gain (loss) on other operations.

Interest margin on total assets, calculated as the ratio of net interest income to average assets, was 3.2%, compared with 1.8% in 2021. For the most part, the improvement was attributable to an increase in the average interest rate on loans resulting from the interest rate rises, as well as higher return on interest-earning assets and deposit margins on current accounts, despite a negative impact of the provision for 'loan repayment holidays'.

The cost/income ratio in 2022 was 49.5%, compared with 62.7% in 2021, mainly as a result of income growing faster than administrative expenses.

Capital ratios

Capital ratios	December 31st 2022	December 31st 2021	Change in percentage points
Common equity Tier 1 capital ratio	14.16	13.38	0.78
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	13.89	12.88	1.01
Tier 1 capital ratio	14.16	13.38	0.78
Tier 1 capital ratio – without IFRS 9 transitional provisions	13.89	12.88	1.01
Total capital ratio	15.05	14.81	0.24
Total capital ratio – without IFRS 9 transitional provisions	14.79	14.31	0.48

As at December 31st 2022, the minimum capital ratios recommended by the Polish Financial Supervision Authority were 9.94% for Tier 1 capital ratio and 11.94% for the TCR ratio.

The capital adequacy ratio of the Bank as at December 31st 2022 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional solutions.

2.2. Statement of financial position of the Bank

Assets of the Bank, PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Cash and balances at central bank	575,865	361,564	59.3
Amounts due from banks	240,885	390,452	-38.3
Financial assets held for trading	222,944	119,310	86.9
Derivative hedging instruments	30,562	9,121	235.1
Investment securities:	9,008,118	7,108,931	26.7
Amounts due from clients, including:	11,173,579	11,516,057	-3.0
measured at amortised cost	11,170,529	11,501,946	-2.9
measured at fair value through profit or loss	3,050	14,111	-78.4
Investments in subsidiaries	226,158	199,371	13.4
Intangible assets	118,251	99,793	18.5
Property, plant and equipment	45,987	39,322	16.9
Right of use – leases	61,199	72,671	-15.8
Tax assets:	161,532	144,947	11.4
Other assets	50,158	32,248	55.5
TOTAL ASSETS	21,915,238	20,093,787	9.1

Total assets of the Bank as at December 31st 2022 were PLN 21,915.2 million, having increased by 9.1% compared to year-end 2021.

As at December 31st 2022, at 51.0%, amounts due from clients had the highest share in total assets. The share decreased by 6.3 percentage points from the end of 2021, and the share of amounts due from other banks decreased by 0.8 percentage point. The share of investment securities increased by 5.7 percentage points and cash and balances with Central Bank increased by 0.8 percentage point.

Amounts due from clients

Amounts due from clients, PLN thousand	2022	2021	Change (%)
Measured at amortised cost	11,130,618	11,466,540	-2.9
Amounts due from retail clients	2,589,036	2,918,461	-11.3
overdraft facilities	745	224	232.6
cash loans	231,292	300,926	-23.1
housing loans	2,132,105	2,377,223	-10.3
other credit facilities	224,894	240,088	-6.3
Amounts due from institutional clients	8,541,582	8,548,079	-0.1
working capital facilities	796,262	648,741	22.7
term facilities	6,838,330	6,927,311	-1.3
factoring receivables	552,199	599,966	-8.0
purchased receivables	91,923	127,311	-27.8
commercial paper	262,868	244,750	7.4
Measurement at fair value through profit or loss	3,050	14,111	-78.4
Amounts due from retail clients	270	651	-58.5
overdraft facilities	9	-	x
housing loans	99	257	-61.5
other credit facilities	162	394	-58.9
Amounts due from institutional clients	2,780	13,460	-79.3
working capital facilities	-	19	-100.0
term facilities	2,780	13,441	-79.3
Total	11,133,668	11,480,651	-3.0
Security deposits	36,251	32,768	10.6
Other amounts due from clients	3,660	2,638	38.7
TOTAL AMOUNTS DUE FROM CLIENTS	11,173,579	11,516,057	-3.0

The carrying amount of amounts due from clients at the end of 2022 was PLN 11,173.6 million, a decrease of 3.0% on December 31st 2021.

As at the end of 2022, amounts due from retail clients measured at amortised cost decreased on year-end 2021 by PLN 329.4 million, or 11.3%, mainly due to a decrease in housing and cash loans. Amounts due from institutional clients measured at amortised cost increased by PLN 6.5 million, or 0.1%.

Amounts due from institutional clients measured at amortised cost accounted for the highest share of total amounts due from clients, at 76.4%. Their share increased by 2.2 percentage points on year-end 2021. Amounts due from institutional clients measured at amortised cost were PLN 8,541.6 million.

The share of amounts due from retail clients measured at amortised cost in total amounts due decreased by 2.2 percentage points, to 23.2%. The amount of retail loans measured at amortised cost was PLN 2,589.0 million at year-end 2022, compared with PLN 2,918.5 million at year-end 2021.

Lending products sold in the reporting period

For information on sale of lending products, see section 1.2.

Quality of the Bank's loan portfolio

Quality of the Bank's loan portfolio, PLN thousand	December 31st 2022	%	December 31st 2021	%
Amounts due from clients measured at amortised cost				
Amounts due from clients without indications of impairment, including:	10,452,180	85.5	10,920,789	86.8
exposures without significant credit risk increase since initial recognition (Bucket 1)	9,385,350	76.8	9,624,023	76.5
exposures with significant increase in risk since initial recognition (Bucket 2), including:	1,066,830	8.7	1,296,766	10.3
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows, including:	-	-	21,754	0.2
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,767,980	14.5	1,632,514	13.0
Total amounts due from clients measured at amortised cost (gross)	12,220,160	100.0	12,575,057	100.0
Impairment losses on:				
amounts due from clients – (Bucket 1)	-94,294		-88,461	
amounts due from clients – (Bucket 2), including:	-56,399		-81,079	
amounts due from clients – (Bucket 3) with no indication of impairment, including:	-		-588	
amounts due from clients – (Bucket 3) with indications of impairment, including:	-938,849		-938,389	
Total impairment losses	-1,089,542		-1,108,517	
Total amounts due from clients measured at amortised cost (net)	11,130,618		11,466,540	
Amounts due from clients measured at fair value through profit or loss				
Fair value, including:	3,050		14,111	
Total amounts due from clients measured at fair value through profit or loss	3,050		14,111	
Security deposits	36,251		32,768	
Other amounts due from clients	3,660		2,638	
TOTAL AMOUNTS DUE FROM CLIENTS	11,173,579		11,516,057	

At year-end of 2022, impairment losses were PLN 1,089.5 million.

The share of amounts due from clients with indications of impairment in the entire portfolio measured at amortised cost was 14.5% as at December 31st 2022, compared with 13.0% as at year-end 2021.

Equity and liabilities of the Bank

As at the end of 2022, amounts due to clients represented the largest share (86.1%) of total equity and liabilities. The share increased by 1.5 percentage points on December 31st 2021. The share of provisions also increased, by 0.3 percentage point. The share of amounts due to central bank and other banks fell by 1.4 percentage points.

The share of equity in total equity and liabilities decreased by 0.3 percentage point on year-end 2021.

Equity and liabilities of the Bank, PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Amounts due to central bank and other banks	141,143	420,389	-66.4
Derivative financial instruments held for trading	147,922	93,879	57.6
Derivative hedging instruments	-	-	x
Amounts due to clients	18,879,924	17,012,146	11.0
Subordinated liabilities	345,035	369,107	-6.5
Provisions	159,357	88,413	80.2
Tax liabilities	-	7,433	-100.0
Lease liabilities, IFRS 16	63,475	75,314	-15.7
Other liabilities	216,386	162,817	32.9
Total equity	1,961,996	1,864,289	5.2
TOTAL EQUITY AND LIABILITIES	21,915,238	20,093,787	9.1

Sources of funding of the Bank

As at December 31st 2022, the Bank's amounts due to clients were PLN 18,879.9 million, having increased by 11.0% on year-end 2021. Amounts due to retail clients rose by PLN 1,741.0 million, or 23.5%, relative to the end of 2021. Amounts due to institutional clients increased by PLN 61.0 million, or 0.7%. Liabilities under borrowings from International Financial Institutions increased by PLN 78.7 million, or 15.4%.

Amounts due to clients, PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Retail clients	9,138,745	7,397,756	23.5
current/checking accounts	3,288,571	3,824,753	-14.0
term deposits	5,850,174	3,573,003	63.7
Institutional clients	8,978,603	8,917,630	0.7
current/checking accounts	6,678,344	7,372,660	-9.4
term deposits	2,300,259	1,544,970	48.9
Other clients	124,710	87,729	42.2
Borrowings from international financial institutions	589,675	510,954	15.4
Lending support funds	48,191	98,077	-50.9
TOTAL LIABILITIES	18,879,924	17,012,146	11.0

2.3. Contingent assets and contingent liabilities of the Bank

Contingent assets and contingent liabilities of the Bank , PLN thousand	December 31st 2022	December 31st 2021	Change (%)
Contingent liabilities:	3,263,185	3,370,486	-3.2
Financial, including:	2,796,667	2,920,453	-4.2
open credit lines, including:	2,781,823	2,899,502	-4.1
revocable	2,319,626	2,443,944	-5.1
irrevocable	462,197	455,558	1.5
open import letters of credit	14,844	20,951	-29.1
Guarantees, including:	466,518	450,033	3.7
credit repayment sureties and guarantees	12,739	12,739	0.0
performance bonds	453,779	437,294	3.8
Contingent assets:	2,164,961	2,126,300	1.8
Financial, including:	154,767	344,955	-55.1
open lines of credit	154,767	344,955	-55.1
Guarantees	2,010,194	1,781,345	12.8

Total contingent liabilities of the Bank as at December 31st 2022 were PLN 3,263.2 million, including financial liabilities of PLN 2,796.7 million. As at December 31st 2022, outstanding guarantees provided by the Bank, disclosed off-balance sheet, were PLN 466.5 million.

For information on the structure of the guarantees as well as on sureties and guarantees provided and received in the financial year, see section 1.3.

3. Difference between financial forecasts and actual results

The BOŚ Group did not publish any financial forecasts.

4. Key achievements in the field of research and development and information on expected development

The BOŚ Group does not conduct any research and development activities. For information on the Bank's development achievements, see section II. of this Report.

As at the date of authorisation of these financial statements for issue, there were no circumstances that would indicate a threat to the Bank's or the Group companies' ability to continue as going concerns for at least 12 months after the reporting date as a result of deliberate or compulsory discontinuation or limitation of their existing activities (for more information, see Note 4.3. to the full-year consolidated financial statements of the BOŚ Group for the year ended December 31st 2022).

IV. RISK MANAGEMENT AT THE GROUP

1. Credit risk

The key objective of credit risk management in 2022, in particular in asset quality management, was to improve the quality and structure of the loan portfolio.

The efforts to improve the quality of the loan portfolio focused on maintaining a policy of moderate risk appetite to achieve a risk cost close to the average for the sector.

In order to improve the structure of the loan portfolio, the Bank continued efforts to reduce individual exposures and concentration risk.

In 2022, the Bank Ochrony Środowiska Strategy for 2021-2023 was updated twice. Both updates to the Strategy were prompted by changes in the Bank's external environment, including market and macroeconomic conditions. These changes led to higher financial aspirations for the Bank and a stronger emphasis on supporting clients in their green transition. Additionally, there is a strategic focus on increasing the share of loans to the institutional segment. The Bank's existing business model and strategic development directions remained unchanged.

The Bank financed transactions that were compliant with generally applicable laws and regulations.

In accordance with its lending policy, the Bank did not engage in transactions that:

- could pose a risk to its reputation,
- may cause risk-bearing debt of one entity or entities with equity or organisational links to exceed concentration levels provided in external regulations,
- 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 Bank restricts financing to entities whose activities do not align with sustainable business practices that benefit the environment, the local community, consumers, and employees.

The Bank made lending decision conditional on:

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

The clients and transactions underwent a comprehensive credit risk assessment, which encompassed an evaluation of the market conditions, epidemiological factors, and geopolitical landscape.

The Bank conducted credit risk assessments utilizing rating and scoring models tailored to the specific client and transaction types. The models were developed, constructed, monitored, and overseen by the Risk Area, considering both internal guidelines and external regulatory requirements.

The credit risk assessment model for retail clients seeking funding unrelated to business activities encompassed the following components:

- a quantitative analysis, which involved evaluating the value and stability of loan repayment sources, and
- a qualitative analysis, which included assessing the characteristics of retail clients that significantly impact their willingness to repay the loan as per the specified agreement dates. This analysis involved scoring and evaluating the client's behaviour based on information obtained from Biuro Informacji Kredytowej S.A. (credit information bureau).

The assessment process took into consideration the provisions outlined in Recommendations T and S of the Polish Financial Supervision Authority (PFSA).

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

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

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

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

The assessment of credit risk related to financing sought by institutional clients included an ESG risk analysis.

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

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

The risk assessment was verified by a credit risk expert – an employee specialised in risk identification and selection of adequate forms of risk mitigation who was independent from the sales functions.

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

If the Bank identified a situation that could jeopardize timely repayment, the Bank used reminders and took restructuring measures using, among other things, solutions implemented in the early warning system (EWS).

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

- identify non-performing exposures,
- measure impairment,
- recognise impairment losses or provisions.

The Bank employed both individualised and group approach to measure impairment of credit exposures and to recognise allowances or provisions.

The powers to make credit decisions at the Bank depend on:

- the type and value of the transaction,
- the amount of the Bank's total credit exposure to the group of related entities to which the client belongs,
- the level of risk generated by the client and the transaction,
- possible departure from standard lending procedures affecting credit risk.

The Bank operated a credit decision-making system based on the principle that the higher the risk of a transaction resulting due to its complexity, the amount of exposure or the client's economic and financial standing, the higher the decision-making level at which the credit decision must be made. The decision-making levels with the highest authority are the Head Office Credit Committee and the Management Board of the Bank. Where there is a departure from standard lending procedures that affects the credit risk, credit decisions are made by a decision-making body with higher authority.

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

The Bank accepted both physical assets as well as personal guarantees as collateral.

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

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

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

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

- adequate protection of the Bank's interests,
- the amount of costs related to establishing the security,
- the ability to quickly liquidate collateral.

The Bank had in place a Policy for Managing Non-Performing Exposures, which defines a strategy of action to achieve reduction, within a prescribed time limit, of non-performing exposures, and an action plan that supports the implementation of the strategy.

In order to limit the negative impact of economic consequences of the COVID-19 pandemic on the quality of the loan portfolio, the Bank applied specific financing and client monitoring policies, adapting them to the current market and epidemic situation.

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

- individual client and transaction,
- the loan portfolio.

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

At the loan portfolio level, the concentration of exposures was effectively managed by adhering to external limits, internal limits, or warning values. Additionally, an acceptable level of credit risk appetite was determined by a set of indicators that encompassed not only traditional credit risk factors but also considerations of Environmental, Social, and Governance (ESG) risks. The levels of internal limits are approved by the Bank's Management Board, and the risk appetite – also by the Supervisory Board.

In particular, the Bank applied the following limits:

- geographical limits – limit of exposure to other countries;
- product-specific limits – e.g., maximum LTV;
- limits for the portfolio of mortgage loans and loans financing real property – in compliance with the PFSA Recommendations,
- limits for selected sectors of the economy,
- limits concerning the share of foreign currency loans in the Bank's portfolio,
- limits for the aggregate exposure to related entities/groups of related entities with respect to which the Bank's exposure exceeds 10% of Tier 1,
- limits for the aggregate exposure to related entities/groups of related entities, depending on the rating of the related entity/group of related entities,
- the total exposure to the Bank's subsidiaries.
- limit for transactions with derogation from the credit rules set out in internal procedures that result in increased credit risk.

In the concentration risk management process, the Bank used a warning level system that applied to all internal limits for credit risk. The system is based on distinguishing three levels of limit utilisation and gradual implementation of measures mitigating the risk of exceeding the limit.

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

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 regulatory requirements, good banking practices and internal procedures.

2. Financial risk

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

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

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

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

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

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

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

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

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

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

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

In 2022, the Group monitored the economic and market situation associated with the COVID-19 pandemic and the war in Ukraine and analysed its impact on financial risks, including the market and liquidity risks.

In 2022, the main objectives, principles and organisation of the financial risk management process at the Group did not change. The level and profile of financial risk are monitored on a regular basis by the Financial and Operational Risk Department (2nd line of defence) of the Bank and by the Risk Management Department of DM BOŚ S.A. and reported to The 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 purpose of liquidity management by the Group is to maintain the ability to finance assets and pay liabilities in a timely manner and to maintain a sustainable structure of assets and liabilities, which ensures a safe liquidity profile in specific time bands, split into liquidity in PLN and the main foreign currencies, but mostly – for the total liquidity position.

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

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

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

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

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

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

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

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

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

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

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

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

Overall liquidity risk profile

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

The Bank maintains its liquid assets (excess liquidity) primarily in the form of highly liquid NBP bills, which constituted 57% of the liquid portfolio of securities as of December 31st 2022. Additionally, Treasury bonds accounted for 41% of the liquid portfolio as at the same date, further contributing to the low specific risk of with these assets. The portfolio of these securities is supplemented with cash and funds held with the National Bank of Poland (above the declared obligatory reserves) and in nostro accounts with other banks. As at 31 December 2022,

the amount of liquid assets was PLN 7,888 million. Liquid assets constitute a buffer to secure liquidity in potential crisis situations, i.e., they can be pledged, liquidated under repo transactions or sold at any time without significant loss of value. The Bank's ability to sell liquid assets (product liquidity risk) is monitored on a regular basis. The primary considerations in these analyses are issue size, market turnover, and bid/ask price volatility.

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

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

Measures of liquidity risk

The Bank determines regulatory measures of liquidity in accordance with the following regulations: The CRR Regulation and Regulation 2019/876 on prudential requirements for credit institutions and investment undertakings (amending Regulation 575/2013 Regulation) and related delegated and implementing regulations as regards liquidity.

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

The Bank is also required to satisfy a stable funding requirement, which as of June 2021 is referred to as the net stable funding ratio (NSFR) requirement. It is calculated as the ratio of the institution's available stable funding to the amount of the stable funding required. The NSFR ratio, as the LCR ratio, should be maintained at a minimum of 100%.

The Bank, in accordance with Commission Implementing Regulation (EU) 2021/451 of December 17th 2020 regarding the reporting of additional liquidity monitoring metrics, prepares and submits ALMM reports to the NBP.

In accordance with EBA/GL/2017/01 Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013, the Bank presents quantitative and qualitative data on the net liquidity coverage ratio, the net stable funding ratio and the liquidity risk in the Information on BOŚ Group. Such disclosures comply with the instructions given by the European Banking Authority.

The Bank also performs an in-depth analysis of its long-term liquidity. Results of these analyses are used to manage the Bank's liquidity. At the same time, the process of preparing short- and long-term financial plans of the Bank includes assessment of liquidity, to ensure an adequate financing structure and compliance with the supervisory liquidity measures.

In 2022, the supervisory liquidity measures, i.e., LCR and NSFR, were calculated daily (i.e., every working day), and remained at a safe level, significantly above the regulatory requirements. As at December 31st 2022, these measures were as follows:

Metric*	December 31st 2022	December 31st 2021
LCR	185%	141%
NSFR	157%	133%

*/LCR and NSFR for the Group.

The Bank has in place an Emergency Liquidity Action Plan approved by the Management Board, which sets out potential sources of deterioration/loss of liquidity, rules of conduct and contingency powers. It is intended to estimate the survival horizon as well as the ability and costs of restoring stable liquidity. This plan, in addition to a scenario analysis of liquidity in contingencies (the assumptions of which are consistent with the stress tests

performed), also includes measurable and non-measurable symptoms ahead of contingencies, allowing for systematic monitoring of the sources of liquidity crises.

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

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

The purpose of stress tests is to allow the Bank to identify potential factors that could lead to liquidity risk and to develop necessary measures to be implemented in the event of a crisis situation. This includes scenarios such as the COVID-19 pandemic or geopolitical developments like the situation in Ukraine.

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

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

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

Internal stress tests performed in 2022, as in 2021, demonstrated that the Bank had a stable liquidity position and its liquid assets (excess liquidity) allowed it to survive the stress test scenarios in which the Bank assumed survival over a certain period of time.

In 2022, as in 2021, the Group's liquidity position was monitored on a regular basis and remained safe.

2.2. Interest rate risk

Interest rate risk refers to the present or potential risk of a decrease in both Bank's income and economic value due to unfavourable fluctuations in interest rates, impacting interest rate-sensitive instruments. This risk is associated with factors such as mismatch risk, basis risk, and option risk. The interest rate risk is primarily generated in the Bank, both in the banking book and the trading book.

Interest rate risk in the banking book

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

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

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

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

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

Measures of interest rate risk in the banking book

In order to manage interest rate risk in the banking book, the Bank employs two measures: sensitivity of net interest income (NII) to a +/-200 basis points (bps) variation in interest rates (until December 19th 2022, a +/-100 bps shock was considered for management purposes), and sensitivity of the economic value of capital (EVE) to a +/-200 bps change in interest rates. Interest rate risk in the banking book is measured on the basis of product characteristics (capital flow schedules, interest rate re-pricing, embedded options), resulting from contracts with counterparties. For current products where the client may flexibly determine, among other things, the repayment schedule or use of funds, the Bank builds replicating portfolios that reflect the economic timing of capital flows. In the replicating portfolios, the average maturity of deposits with undetermined maturity is 6 months, and the maximum maturity is 12 months. The Bank also takes into consideration client behaviour patterns, such as: early credit repayment levels or deposit breakage levels, which are estimated in accordance with internal regulations of the Bank. The assumptions made are consistent with BA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading activities.

The following table provides a comparison of the NII and EVE measures between December 31st 2022 and December 31st 2021:

Date	Δ NII				Δ EVE	
	-100 bps	+100 bps	-200 bps	+200 bps	-200 bps	+200 bps
December 31st 2022	-30,759	31,822	-78,285	64,606	118,472	-112,632
December 31st 2021	-68,395	41,247	-149,551	79,992	84,372	-102,232
Change¹	37,636	-9,425	70,998	-14,903	34,100	-10,400

¹ Due to the adjustment in the magnitude of the interest rate shock for the NII sensitivity measure on December 19th 2022, the relevant measures for each date are indicated in the table with an underline.

In 2022, both NII and EVE were within limit/at warning levels consistent with the risk appetite and risk tolerance approved by the Supervisory Board. Changes in the values of these measures have a certain cyclical nature, which is due to the regular approximation of the timing of the repricing of floating rate positions and the maturity of fixed rate positions. In 2022, the sensitivity of net interest income to a decline in market interest rates decreased

significantly, due in part to the Monetary Policy Council's continued tightening of monetary policy and the Bank's decisions to increase interest rates on time deposits and savings accounts. The asymmetrical impact of interest rate movements on NII in the scenarios of falling and rising interest rates results from the characteristics of interest rates on specific items sensitive to interest rate movements, including reduction of interest rates on certain sources of financing to 0%, under the conditions of the analysed market interest rate movements (i.e., by -200 bps). Due to the increase in market rates in 2022, the impact of this effect began to diminish last year. The increase in the sensitivity of EVE to rising interest rates was influenced, among other factors, by the higher valuation of IRS transactions. The war in Ukraine did not have a material impact on EVE or NII.

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

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

ΔEVE in a given SOT scenario (PLN thousand)						
	Parallel upward shift of the interest rate curve	Parallel downward shift of the interest rate curve	steepener shock ¹	flattener shock ²	short rates shock up ³	short rates shock down ³
December 31st 2022	-98,971	51,741	21,524	-64,894	-94,599	37,205
December 31st 2021	-81,118	21,719	5,598	-64,604	-89,159	5,843
Change	-17,853	30,022	15,926	-290	-5,440	31,362

¹ sharper shock (decrease in short-term rates and increase in long-term rates),

² more moderate shock (increase in short-term rates and decrease in long-term rates),

³ interest rate shocks in the short run are extinguished in longer tenors.

The results of the SOT analysis indicate that, as of the end of 2022, the Bank was most exposed to a decline in EVE in the Parallel Up scenario for the interest rate curve. This is a change from the previous year – at year-end 2021, the most severe scenario was the short shock up (Short Up) scenario. The sensitivity of the economic value of the Bank's equity in the two most severe scenarios (i.e. Short Up and Parallel Up) increased relative to 2021. Across all scenarios, the sensitivity of the economic value of equity remains significantly below the supervisory warning levels and limits. This indicates a low level of exposure to interest rate risk.

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

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

The Bank also conducts reverse tests:

1. for the EVE – tests of the impact of changes in market factors, the purpose of which is to show when the sensitivity of the EVE falls below 20% of equity,

2. for the NII:

- tests to show when the NII sensitivity falls below the appetite level,
- tests designed to identify areas of vulnerability to risks arising from collateral and risk management strategies and behavioural responses of clients.

The results of the stress test as at December 31st 2022 show that, in extremely adverse market conditions and the Bank's increased exposure to instruments sensitive to interest rate risk, the banking book risk remained at a safe level.

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

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

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

Interest rate risk in the trading book

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

Measures of interest rate risk in the trading book

In order to monitor the interest rate risk, the Bank uses:

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

In 2022, there were no significant changes in the techniques applied to measure the interest rate risk of the Bank's trading book.

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

Date	10-day VaR				Stress tests ± 200 bps as at
	mean	max	min	as at*	
December 31st 2022	551	1,093	128	574	-1,076
December 31st 2021	249	822	49	373	-1,018

*On December 30th 2022, a limit was established for the 1-day Value at Risk (VaR). To enable comparison, the 1-day VaR has been adjusted to the 10-day VaR scale.

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

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

1. the 10-day VaR limit, as of December 30th 2022, the 1-day VaR limit applies;
2. the BPV limit for instruments generating interest rate risk in the trading book, both intra-day and end-of-day, separately for positions in debt securities and for IRS, and combined for these instruments,
3. maximum, two-day and monthly trailing loss limits for assets in the trading book.

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

Once a month, the Bank conducts stress testing analysis, examining the development of the interest rate risk in the banking and trading book in case of materialisation of extreme changes in risk factors.

In the trading book, the Bank examines the impact of extreme adverse movements of market interest rates on the Bank's profit or loss as well as the volatility of interest rates over 250 business days and the correlation between the interest rate volatility and VaR using both the historical and parametric methods. The historical method considered the volatility of interest rates, taking into account various factors such as geopolitical crises that contribute to fluctuations in interest rates.

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

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

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

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

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

The Monetary Policy Council's eight rate increases by a total of 5 percentage points did not lead to any material increase in the interest rate risk in the trading book. The interest rate risk metrics in the trading book was monitored on an ongoing basis.

2.3. Currency risks

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

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

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

The currency risk in DM BOŚ S.A.'s non-trading book is attributable to deposits of foreign currency cash in the accounts of foreign brokers who buy and sell financial instruments on foreign exchanges on behalf of DM BOŚ clients. DM BOŚ S.A. has open currency positions in USD and EUR in the non-trading book, and the portfolio's currency risk is managed within the limit of the total currency position for the trading book and the non-trading book.

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

Currency risk in the trading book is generated by both the Bank and DM BOŚ S.A. The currency risk in the trading book was primarily attributable to DM BOŚ S.A., and to a lesser extent to the Bank. Open foreign exchange positions in DM BOŚ S.A.'s trading portfolio arise from offering services to clients in the derivatives trading market and from providing services on a regulated market.

The BOŚ Group maintains a harmonised foreign exchange risk management system, wherein the risk is calculated separately for the Bank and DM BOŚ S.A.

Measures of currency risk

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

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

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

Date	10-day VaR						Stress tests of the Group – increase/decrease of foreign exchange rates by 30%
	Bank				DM	Group	
	mean	max	min	as at*	as at	as at	
December	341	1,357	12	655	5,697	6,201	-1,569
December	276	1,700	16	560	2,049	1,843	-1,937

*On December 30th 2022, a limit was established for the 1-day Value at Risk (VaR). To enable comparison, the 1-day VaR has been adjusted to the 10-day VaR scale.

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

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

1. the 10-day VaR limit, as of December 30th 2022, the 1-day VaR limit applies;
2. limits on the amount per total position and per individual position for the main currencies, both intra-day and end-of-day,
3. daily and monthly trailing loss limits for currency exchange transactions.

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

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

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

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

1. historical:
 - historical increase/decrease in foreign exchange rates against PLN (including fat tails),
 - Increase/decrease in cross currency EUR/CHF and EUR/USD rates,
2. parametric:
 - a 30% increase/decrease in foreign exchange rates against PLN,
 - increase in volatility of foreign exchange rates,
 - extremely adverse changes in the correlation of foreign exchange rates.

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

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

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

Despite the existence of geopolitical crises and other factors that contribute to exchange rate volatility, the level of currency risk did not increase significantly. The measures of currency risk were monitored on an ongoing basis, and although their levels generally increased they remained within the limits applied by the Bank.

2.4. Other market risks

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

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

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

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

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

3. Operational risk and compliance risk

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. Reputational and strategic risks are not part of operational 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 reporting on operational risk, covering in particular the level and profile of operational risk, the level of utilization of operational risk limits and the amount of losses from operational risk events at the Bank and the Subsidiaries deemed material from the point of view of operational risk.

Information regarding operational risk is included in periodic management reports prepared for the Operational Risk Committee, the Bank's Management Board and Supervisory Board, and the Risk Committee (in collaboration with the Supervisory Board).

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

In 2022, a number of tasks were completed as part of the risk management system organisation efforts, including: (1) review and approval of the operational risk appetite and tolerance limits for 2022, (2) periodic monitoring of the utilization of the adopted limits, (3) development of the Operational Risk Map for 2022 based on self-assessment of the Bank's Head Office organizational units, (4) assessment of the significance of BOŚ Group's subsidiaries in terms of the generated operational risk, (5) review of the Key Operational Risk Indicators (KRI).

The Bank also focused its activities on raising the employees' awareness of operational risk. To achieve this, several measures were undertaken, including launching a new information campaign on operational risk events, organizing a webinar on operational risk, incorporating the Principles of Risk Culture in the Bank into onboarding training, and hosting "Risk Days" at the Bank with the participation of senior management as well as representatives from other organizational units responsible for risk management.

The Bank enrolls every new employee in the compulsory e-learning programme on operational risk management at BOŚ S.A. In 2022, a further edition of the training programme took place, encompassing all of the Bank's employees.

In 2022, in terms of operational risk, there were no non-recurring events generating extraordinary and unanticipated losses that would materially affect the safety of the Bank's and the Group's operations. Operational risk events were investigated and measures aimed to reduce potential losses were implemented. In 2022, the most significant operational risk factor influencing the level of this risk stemmed from court cases filed by the Bank's clients, relating to mortgage loans denominated and indexed to foreign currencies. In order to mitigate the risk involved, the Bank has in place the Compromise and Settlement Programme, to reach settlements with clients who have taken out mortgage loans denominated in and indexed to foreign currencies.

3.2. Compliance risk

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

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

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

- 1) Principles of compliance risk management at Bank Ochrony Środowiska S.A.,
- 2) Principles of internal control at Bank Ochrony Środowiska S.A.

The Bank has a separate, independent compliance function that reports directly to the President of the Management Board and is responsible for carrying out its duties within the control function, as well as tasks related to compliance risk management.

The compliance risk management process, carried out by the compliance function assisted by other organizational units of the first and second line of defence, includes:

- identification of compliance risks, particularly at the stage of developing new products and internal regulations,
- assessment of compliance risk,
- control and monitoring of compliance risk,
- reporting risk of non-compliance of the Bank's operations with applicable laws, internal regulations and market standards.

The compliance unit is responsible for overseeing the anonymous reporting system for breaches of laws, ethical procedures, and standards adhered to by BOŚ S.A.

The Bank identifies the following key compliance areas:

- implementing and monitoring compliance with laws and market standards,
- implementing and monitoring compliance with ethical standards,
- accepting/giving benefits or gifts,
- advertising and marketing activities,
- offering products, including in particular implementation of new products,
- handling client complaints,
- preventing and managing conflicts of interest,
- preventing money laundering and terrorist financing (AML),
- trading in financial instruments.

In 2022, no events occurred that had a significant impact on the level of compliance risk, and the Bank focused its efforts on preventing the emergence of compliance risk.

V. 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 budget.

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 are detailed in Note 51 of the full-year consolidated financial statements of the BOŚ Group for the financial year ending December 31st 2022.

The Bank and its subsidiaries did enter into any related-party transactions on non-arms' length terms.

4. Seasonal or cyclical nature of the business

The Group's business does not involve any significant events or factors that would be subject to seasonal or cyclical variations.

5. The Bank's agreements

5.1. Significant agreements

In 2022, the Bank did not enter into any significant agreement.

5.2. Agreements with the Central Bank and regulatory bodies

On November 18th 2021, the Bank concluded an Agreement with the NBP regarding the terms and conditions of opening and maintaining a euro account in the TARGET2-NBP system. In 2022, the Bank did not enter into any agreements with the Central Bank and regulators.

5.3. Contracts for audit of financial statements

Body selecting the independent auditor

On April 27th 2022, the Supervisory Board of Bank Ochrony Środowiska S.A. selected the audit firm by adopting a resolution regarding the appointment of an independent auditor to audit the full-year financial statements of BOŚ S.A. and the full-year consolidated financial statements of the BOŚ Group, as well as to review the half-year financial statements of BOŚ S.A. and half-year consolidated financial statements of the BOŚ Group for the years 2022-2023.

Contract with the independent auditor

On August 10th 2022, a contract was signed with Mazars Audyt Sp. z o.o. for assurance services to ensure the compliance of qualitative and quantitative information on the capital adequacy of the BOŚ Group with CRR requirements.

On June 15th 2022, a contract was signed with Mazars Audyt Sp. z o.o. to review and audit the financial statements for 2022 and 2023.

The previous contract was executed on July 12th 2019 with Mazars Audyt Sp. z o.o. The scope of the contract was the review and audit of the financial statements of the Bank and the BOŚ Group for the years 2019–2021.

On April 10th 2021, the contract was amended to include assurance services. As part of the assurance engagement, the auditor is to express an opinion on the compliance of the consolidated financial statements with the

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requirements of the Regulation on the regulatory technical standards of the specifications of the single electronic reporting format (ESEF).

Information of the Bank's Management Board on appointment of the audit firm

Pursuant to Par. 70.1.7 and Par. 71.1.7 of the Minister of Finance's Regulation on current and periodic information (...) of March 29th 2018, based on a representation of the Supervisory Board of Bank Ochrony Środowiska S.A. on the selection and appointment of the audit firm to audit the full-year separate financial statements and the consolidated financial statements in accordance with the applicable laws, the Management Board of the Bank reports that Mazars Audyt Sp. z o.o., which audited the full-year separate financial statements and the consolidated financial statements, was selected in accordance with the applicable laws, including the rules governing selection and appointment of the audit firm, and that:

- the audit firm and the auditors who performed the audit met the conditions required to issue an unbiased and independent audit report on the full-year separate financial statements and the consolidated financial statements, in accordance with the applicable laws and regulations, professional standards, and principles of professional ethics;
- the laws governing rotation of audit firms and lead auditors and mandatory cooling-off periods are observed;
- the Bank has in place a policy governing the selection and appointment of an audit firm and a policy governing the provision of non-audit services, including permissible non-audit services, by an audit firm, its affiliates and members of its network.

5.4. Auditor's fee

Fees of Mazars Audyt Sp. z o.o., the auditor appointed to audit the financial statements, paid or due for:

2022 (net amounts):

1. BOŚ S.A.

Review of the (separate and consolidated) financial statements for the first half of 2022	PLN 123 thousand
Audit of the full-year (separate and consolidated) financial statements for 2022, including performance of the ESEF assurance service ¹	PLN 395 thousand
Assurance service consisting in giving an opinion on the compliance of qualitative and quantitative information concerning the capital adequacy of the BOŚ Group with the requirements stipulated in the CRR Directive for the six months ended June 30th 2022 and for the 12 months ended December 31st 2022.	PLN 145 thousand
Other services ²	PLN 31 thousand

¹ Assurance service consisting in giving an opinion in the audit report on the conformity of the tagging of full-year consolidated financial statements, prepared in accordance with the ESEF (European Single Electronic Format) Regulation, with the requirements specified by the ESEF Regulation.

² a) Assurance service provided by the auditor and consisting in assessment of the correctness of determining the financial results of the BOŚ Group for the six months ended June 30th 2022 in accordance with the prudential consolidation criteria set out in the CRR Regulation, b) Assurance service provided by the auditor and consisting in assessment of the remuneration report to ensure its compliance with the requirements set forth in the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies.

2. Dom Maklerski BOŚ S.A.

Audit of the full-year financial statements for 2022	PLN	65
Review of the financial statements for the first half of 2022	PLN	25
Other services ³	PLN	13

3. BOŚ Leasing Eko-Profit S.A. (includes audit of MS Wind Sp. z o.o.)

Audit of the full-year financial statements for 2022	PLN	62
Review of the financial statements for the first half of 2022	PLN	33

2021 (net amounts):

1. BOŚ S.A.

Review of the (separate and consolidated) financial statements for the first half of 2021	PLN 114 thousand
Audit of the full-year (separate and consolidated) financial statements for 2021	PLN 372 thousand
Assurance service consisting in expressing an opinion on the compliance of qualitative and quantitative information on capital adequacy of the BOŚ Group with the requirements of the CRR Directive for 2021	PLN 80 thousand
Other services ⁴	PLN 21 thousand

2. Dom Maklerski BOŚ S.A.

Audit of the full-year financial statements for 2021	PLN	60
Review of the financial statements for the first half of 2021	PLN	23
Other services ⁵	PLN	12
3. BOŚ Leasing Eko-Profit S.A. (includes audit of MS Wind Sp. z o.o.)		
Audit of the full-year financial statements for 2021	PLN	58
Review of the financial statements for the first half of 2021	PLN	31

3. BOŚ Leasing Eko-Profit S.A. (includes audit of MS Wind Sp. z o.o.)

Audit of the full-year financial statements for 2021	PLN	58
Review of the financial statements for the first half of 2021	PLN	31

An oversight fee, as mandated by the Law on Certified Public Accountants, is applied to all payments at the prescribed rate.

6. Non-recurring factors and events

The war in Ukraine, which commenced on February 24th 2022, resulted in a substantial surge in food and energy prices, thereby contributing to the growth of inflation. In 2022, the interest rate hikes implemented by the Monetary Policy Council had a significant impact. On the one hand, they resulted in an increase in net interest

³ Audit of custody of clients' assets.

⁴b) Assurance service provided by the auditor and consisting in assessment of the remuneration report to ensure its compliance with the requirements set forth in the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies. b) Assurance service consisting in giving an opinion in the audit report on the conformity of the tagging of full-year consolidated financial statements, prepared in accordance with the ESEF (European Single Electronic Format) Regulation, with the requirements specified by the ESEF Regulation.

⁵Limited assurance service, including assessment of compliance of DM BOŚ S.A. with the requirements for custody of clients' assets.

income. On the other hand, they led to a downward revaluation of securities measured at fair value through other comprehensive income, resulting in a decrease in equity. Consequently, the Bank's and the Group's total income were reduced accordingly.

On July 7th 2022, the Sejm passed the Business Crowdfunding and Borrowers Assistance Act. This legislation introduced a comprehensive package of support measures for borrowers, including payment deferrals and loan payments covered by the Borrowers Support Fund. These initiatives had adversely affected the Group's financial results.

In 2022, there were no other events at the Bank that would be material for the assessment of its human resources, assets, financial position, financial result and any changes thereto, as well as for the assessment of the Bank's ability to fulfil its obligations.

7. Court proceedings and description of changes in the legal environment for the housing loan portfolio, including loan repayment holidays and other forms of assistance for clients

As at December 31st 2022, Bank Ochrony Środowiska S.A. was:

- a claimant in 909 lawsuits for a total amount of PLN 98.98 million,
- a respondent in 993 lawsuits for a total amount of: PLN 358.97 million.

As at December 31st 2022, the Bank was not involved in any material proceedings pending before any court, arbitration body or public administration authority where the amount of the Bank's liabilities or claims would represent at least 10% of the Bank's equity.

Litigation and other proceedings against the Bank concerning reimbursement of part of consumer credit costs on account of early repayment

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

In response to the request for preliminary ruling put forward by the national court, the ECJ ruled that the consumer's right to reduce the total cost of credit on account early repayment of the credit covers all costs imposed on the consumer.

No proceedings are pending against Bank for reimbursement of part of consumer credit costs under the Act on enforcement of claims in class action proceedings of December 17th 2009.

As of December 31st 2022, there were seven court proceedings pending against the Bank regarding the reimbursement of consumer credit costs due to early repayment.

Litigation against the Bank concerning loans denominated in or tied to foreign currencies

Since the ruling issued by the Court of Justice of the European Union ("CJEU") on October 3rd 2019 in Case C-260/18 Kamil Dziubak, Justyna Dziubak v Raiffeisen Bank International AG, Vienna, conducting business in Poland in the form of a branch under the name Raiffeisen Bank International AG Branch in Poland, there has been a growing number of lawsuits concerning loan agreements indexed to foreign exchange rates. The reasons can be found in the intensified marketing campaign by entities representing borrowers in court proceedings, the constant

presence of the subject matter in the media, as well as trends in the national case law evolving to the disadvantage of banks.

Most of the court judgments issued following the CJEU ruling of October 3rd 2019 are not in favour of banks, but the case law continues to be inconsistent in this respect. In Poland, courts hearing cases involving foreign exchange-linked mortgages have made further requests to the CJEU for preliminary rulings. The most awaited by the banking sector and borrowers alike is the position of the CJEU regarding restitution claims of banks, which is bound to have a major impact on future rulings of common courts.

The Bank monitors both domestic case law and the CJEU's rulings on an ongoing basis when assessing the legal risks of foreign currency-indexed loans and takes into account in its analyses that the CJEU judgments and rulings by Polish courts to the disadvantage of banks result in a growing number of court proceedings and increase in the value of claims sought.

On May 7th 2021, the Supreme Court, sitting in a panel of seven judges, adopted a resolution having the effect of a legal rule in response to questions posed by the Financial Ombudsman, stating that if a credit agreement is found invalid, each party is entitled to a separate claim for reimbursement of the performance obligation rendered. The Supreme Court indicated that the agreement may be deemed definitively ineffective only if the consumer is duly informed of the effects of the agreement's invalidity and does not agree to be bound by the provision deemed abusive. The Supreme Court has yet to resolve on the legal question submitted by the First President of the Supreme Court concerning, among other things, the possibility of replacing an exchange rate from the exchange rate tables of banks with a different rate.

Together with a group of other banks, BOŚ S.A. embarked on a task to draft settlement agreements that would be executed with clients on a voluntary basis, whereby loans denominated in foreign currencies would be repaid as if they had been originated as PLN-denominated loans in the first place, with an interest rate calculated as WIBOR plus a reasonable margin.

Having obtained the approval of the Extraordinary General Meeting (Resolution No. 4/2021 of December 8th 2021), on January 31st 2022 the Bank implemented the BOŚ S.A. Compromise and Settlement Programme based on a framework communicated by the President of the PFSA. Until December 31st 2022 327 settlements had been reached in the Programme, and 798 applications had been submitted.

As at December 31st 2022, the total amount of provisions for foreign currency-linked mortgage risk was PLN 514.8 million, comprising PLN 490.2 million as provision for litigation and legal risk claims related to CHF mortgages, along with PLN 12.9 million related to EUR mortgages, and PLN 11.7 million related to USD mortgages.

On February 16th 2023, the Advocate General of the CJEU in Case C-520/21 delivered an opinion stating that:

1. the provisions of Directive 93/13 (Articles 6(1) and 7(1)) must be interpreted as not precluding a judicial interpretation of national law according to which, if a credit agreement concluded by a consumer and a bank is declared void from the outset because it contains unfair contractual terms, the consumer, in addition to the return of the money paid under the agreement and the payment of statutory interest for late payment from the time of the demand for payment, may, following such a declaration, also claim additional benefits from the bank. It is up to the national court to determine, in light of national law, whether consumers have the right to assert such claims and, if so, to rule on their merits.
2. The provisions of Directive 93/13 preclude the judicial interpretation of national law, according to which, if a credit agreement is invalid, the bank, in addition to repayment of the principal and payment of statutory interest for delay from the time of the demand for payment, may also demand additional benefits from the consumer. However, the Advocate General believes that even if national law permitted such claims, Directive 93/13 precludes them.

The Advocate General's opinion is unfavourable to the banking sector, while being non-binding on the CJEU. The next step in the case will be a ruling by the CJEU. The CJEU's ruling will have a significant impact on national jurisprudence and, depending on the wording of the judgment, could have negative consequences for the banking sector.

As at December 31st 2022, there were 919 court cases pending against the Bank concerning loans tied to foreign currencies, predominantly CHF, with a total value of claims amounting to PLN 316.23 million. The claims raised in the lawsuits generally involve seeking to declare the credit/loan agreement invalid and to award repayment of loan instalments paid or, alternatively, declaring the denomination clauses abusive and demanding payment.

Changes in the legal environment of the PLN loan portfolio, including loan repayment holidays and other forms of assistance to clients

On July 29th 2022, the Business Crowdfunding and Borrowers Assistance Act of July 7th 2022 (the "Act") came into force. The Act provides for assistance to consumers repaying mortgage loans denominated in PLN ('loan repayment holidays').

The Act provides consumers with an option to suspend the repayment of a mortgage loan advanced in PLN, excluding loans indexed to or denominated in currencies other than PLN. Pursuant to the Act, the suspension option is available for mortgage loans advanced under mortgage loan agreements, within the meaning of the Act on Mortgage Loans and Supervision of Mortgage Intermediaries and Agents, concluded to meet consumers' own housing needs. This means that the statutory support will be extended not only to mortgage loans taken out to acquire property but also to mortgage loans (including mortgage-backed cash loans) granted to maintain title to residential property or to finance the construction or alteration of a residential building or dwelling.

The Act grants the consumer the right to suspend repayment of a loan:

- 1) from August 1st 2022 to September 30th 2022, for a period of two months;
- 2) from October 1st 2022 to December 31st 2022, for a period of two months;
- 3) from January 1st 2023 to December 31st 2023, for one month per quarter.

Thus, the consumer may suspend the repayment of a loan for up to eight months.

For consumers being party to more than one loan agreement with a given lender, it was determined that an application requesting repayment freeze may only be made with respect to one of those agreements concluded to meet the consumer's own housing needs.

A solution modelled after the COVID-19 Act stipulates that repayments will be suspended from the date of delivery of a relevant application requesting loan suspension to the lender, for the period indicated in the application. During the suspension period, the consumer is not obliged to make any payments under the loan agreement except for any related insurance payments.

The payment suspension period is not counted towards the loan maturity period. The loan maturity period and all the time limits specified in the agreement will be extended by the duration of the loan suspension period. No interest or fees will be charged during the suspension period except for insurance payments related to the loan agreement (such payments are included in the payment suspension notice given by the Bank to the borrower within 21 days of the date of delivery of the suspension request to the Bank).

Loan payment holidays are available with respect to agreements concluded before July 1st 2022, including agreements concluded before the entry into force of the Act on Mortgage Loans and Supervision of Mortgage Intermediaries and Agents of March 23rd 2017, i.e. before July 22nd 2017; to the extent that the contractually specified loan maturity period falls on or after January 1st 2023 (in accordance with the law: "six months after July 1st 2022").

'Loan repayment holidays' are available to all mortgage borrowers, regardless of their income.

Since the Act first came into effect, the President of the Office of Competition and Consumer Protection (the "President of UOKiK") has expressed strong interest in how banks are performing their obligations under the Act relating to the 'loan repayment holidays' scheme, including those related to receiving and processing of loan suspension applications. In late July 2022, the President of UOKiK initiated an investigation against several banks, including BOŚ S.A., to provisionally determine whether a breach occurred justifying the opening of proceedings concerning practices infringing collective consumer interests. In the course of the investigation, the President of UOKiK issued a series of letters to the Bank asking about the rules applied by the Bank to grant suspension of mortgage loan repayments to consumers. The Bank replied to each of those letters within the prescribed time

limits. Notwithstanding the aforementioned investigation, in early December 2022, the Bank received a letter from the President of UOKiK dated November 30th 2022. This letter was sent under Article 49a of the Competition and Consumer Protection Act, a provision that allows the President of UOKiK to contact an entrepreneur in competition and consumer protection matters without initiating any proceedings. In the letter, the President of UOKiK requested specific data on the suspension of mortgage loan repayments that occurred at BOŚ S.A. up to November 30th 2022. Specifically, the President of UOKiK requested information such as: the number of agreements for which loan repayment was suspended, the value of the outstanding principal, the number of loan agreements for which repayment holidays were used and which were repaid early in full or in part, as well as the number and amount of overpayments for loans that qualified for repayment holidays. The Bank responded to the letter within the statutory period of 14 days.

As of December 31st 2022, the Bank had not received any letters from the President of UOKiK regarding the initiation of proceedings against BOŚ S.A. concerning practices infringing collective consumer interests.

Changes in the legal environment of the PLN loan portfolio, including loan repayment holidays and other forms of assistance to clients

The Bank has rolled out a number of specialized solutions and products to support borrowers grappling with financial hardships as a result of the COVID-19 pandemic, and it actively participates in various projects and initiatives designed to provide assistance to borrowers.

The currently available facilities for borrowers include:

1. Statutory loan payment holidays under the Act on Special Measures to Prevent, Counteract and Combat COVID-19, Other Infectious Diseases and Related Crisis Situations of March 2nd 2020 (Dz. U. of 2020, items 374, 567, 568, 695 and 875) (Shield 4.0 government aid scheme)

The fulfilment of a loan agreement may be suspended for individual consumers – as defined in Article 221 of the Civil Code of April 23rd 1964 – who entered into a loan agreement with the Bank prior to March 13th 2020 and have a loan maturity date set within six months following that date. This applies if they lost their job or primary source of income after March 13th 2020 (even if only one of the co-borrowers loses their job or primary source of income, they remain eligible for loan payment suspension).

An application for loan payment holidays may be submitted by clients with respect to agreements falling into one of the following three categories:

- consumer credit agreements within the meaning of the Consumer Credit Act of May 12th 2011, including: Przejrzysta Pożyczka (Transparent Loan) cash loans, PV loans, checking account overdrafts, credit cards and preferential green loans granted by the Bank in association with green funding donors, such as NFOŚiGW, WFOŚiGWs or BGK (donor-supported green loans),
- credit agreements within the meaning of Art. 69 of the Banking Law of August 29th 1997, including cash loans for more than PLN 255,550, donor-supported preferential loans and stock market loans.

2. Support fund for borrowers under financial strain

The Borrowers' Support Fund (FWK) is a mechanism providing assistance to borrowers under financial strain who are obliged to repay housing loans. Target beneficiaries of the Borrowers' Support Fund include borrowers who sold the mortgaged property but the sale proceeds did not suffice to cover all outstanding liabilities under their housing loans (financing commitments or debt repayment loans).

The Borrowers' Support Fund is made up of contributions paid in by lenders. Support is provided for a period of up to 36 months, with the proviso that the amount of support determined on a case-by-case basis may not exceed PLN 2 thousand per month. The amount is transferred by Bank Gospodarstwa Krajowego to the borrower's bank that granted the housing loan.

The Fund can be utilised to provide support for current housing loan instalments or to offer a loan covering the remaining debt after the sale of the mortgaged property.

3. Loan payment holidays under the Business Crowdfunding and Borrowers Assistance Act of July 7th 2022

As of July 29th 2022, BOŚ enabled clients to apply for suspension of mortgage payments based on the provisions of the Law of July 7th 2022 on Business Crowdfunding and Borrowers Assistance Act. The law allows for the option to suspend the repayment of instalments on a mortgage loan or consumer mortgage loan denominated in Polish currency, excluding those indexed or denominated in a currency other than Polish.

Consumers have the right to have their loan repayments suspended for the following periods:

- 1) from August 1st 2022 to September 30th 2022, for a period of two months;
- 2) from October 1st 2022 to December 31st 2022, for a period of two months;
- 3) from January 1st 2023 to December 31st 2023, for one month per quarter.

For consumers who have multiple loan agreements with the same lender, it has been specified that an application for loan payment holidays can only be made in relation to one of those agreements specifically entered into to fulfil the consumer's own housing needs.

A solution modelled after the COVID-19 Act is that repayments will be suspended as of the date of delivery to the lender of a relevant application requesting loan suspension for a period indicated therein. During the suspension period, the consumer is not obliged to make any payments under the loan agreement except for any related insurance payments. No interest or fees other than those indicated in the confirmation will be charged during the suspension period, either.

The payment suspension period is not counted towards the loan maturity period. The loan maturity period and all the time limits specified in the agreement will be extended by the duration of the payment suspension period.

Loan payment holidays are available with respect to agreements concluded before July 1st 2022, including agreements concluded before the entry into force of the Act on Mortgage Loans and Supervision of Mortgage Intermediaries and Agents of March 23rd 2017, i.e. before July 22nd 2017; to the extent that the contractually specified loan maturity period falls on or after January 1st 2023 (in accordance with the draft law: "six months after July 1st 2022").

Eligible to claim loan payment holidays are all holders of mortgage loans, regardless of their incomes, and an application for suspension of repayments may be made by a single borrower. Despite having to do so at short notice, on July 29th 2022 Bank Ochrony Środowiska S.A. launched all the possible channels for submitting client applications. The amendments were implemented in a timely manner, and since that date the Bank has accepted client applications through its online banking platform, website and branch network.

The Bank adjusted its system solution to accept requests for suspension of instalment payments throughout the entire period during which clients are eligible for repayment holidays. The change was made following the expectations of the supervisory authorities (UOKiK, PFSA). The Bank's previous interpretation of the statutory provisions allowed the management of client instructions on a quarterly basis, which seemed a more optimal approach from the operational perspective, including the management of changes in client instructions (withdrawal of payment suspension).

8. Changes in significant management policies

In 2022, there were no changes in significant management policies at the Bank.

9. Information about dividend

No dividend was paid or declared in 2022.

10. Value of collateral

As at the end of 2022, the value of significant collateral other than blank promissory notes and assignment of an insurance policy for movable or non-movable property amounted to PLN 27,553.7 million. Real estate mortgages remain the most important type of collateral (PLN 12,170.5 million, or 44.2%). The amount of pledges was PLN 8,499.7 million, or 30.8% of the total value of collateral. The amount of guarantees and sureties was PLN 5,113.9 million, or 18.6% of the total value of collateral. The amount of assignments of receivables by counterparties based in an OECD-member country was PLN 950.9 million, or 3.5% of the total value of collateral. Payments to the bank's account were PLN 359.7 million, or 1.3% of the total amount of collateral. The amount of insurance contracts with KUKE was PLN 324.7 million, or 1.2% of the total value of collateral. Other types of collateral did not exceed 1.0% of the total value of collateral.

11. Events after the reporting date

Appointment of Vice President of the Bank's Management Board and resignation from the Supervisory Board

The Supervisory Board of the Bank, at its meeting held on February 8th 2023, passed a resolution to appoint Mr Emil Ślęzak as Vice President of the Management Board of Bank Ochrony Środowiska S.A. and entrusted him with responsibility for directing the work of the Management Board. On February 8th 2023, Emil Ślęzak, Member of the Supervisory Board, resigned from his position on the Supervisory Board.

Opinion of the Advocate General of the CJEU on residential foreign currency loans

On February 16th 2023, the CJEU Advocate General delivered his opinion in Case C-520/21. The impact of the CJEU Advocate General's opinion on legal risk and the estimation of the level of provisions for legal risk is presented in Note 7.

VI. CORPORATE GOVERNANCE STATEMENT

1. Corporate governance principles

1.1. Corporate governance principles applicable to BOŚ S.A. and where they can be found

BOŚ applies the corporate governance principles contained in "Best Practices for Companies Listed on the WSE 2021" and adheres to the "Corporate Governance Principles for Supervised Institutions" issued by the Financial Supervision Authority. The documents are available at: <https://www.bosbank.pl/informacje-korporacyjne/relacje-inwestorskie/lad-korporacyjny> under "Good Practices of Companies Listed on the WSE" and "Corporate Governance Principles," respectively.

1.2. Information on waiver of certain corporate governance principles set forth in the Best Practice for GWP (WSE) Listed Companies 2021 and Principles of Corporate Governance for Supervised Institutions issued by the PFSA.

Principles of the Best Practice for GWP (WSE) Listed Companies 2021 which are not complied with:

- 1.4.2 – The information on the ESG elements of the strategy should, among other things, present the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of the equality target.

Bank's comment: The Bank does not publish such information on its website. As far as remuneration is concerned, the Bank complies with all applicable laws governing relationships with its employees, including, without limitation, the Labour Code and laws prohibiting discrimination on any grounds. The key remuneration determinants considered by the Bank include the type and nature of work, the various specific conditions related to human resources management, the relevance of the job to the performance and risk profile of the Bank, and generally applicable laws. The Bank will consider applying the rule in the future.

- 4.8 – Draft resolutions on matters placed on the agenda of a general meeting should be submitted by the shareholders no later than three days before the general meeting.

Bank's comment: The rule is not complied with. The Bank complies with the applicable laws in this respect. Accordingly, a shareholder or shareholders representing at least one-twentieth of the share capital may submit to the company, prior to the date of the general meeting, draft resolutions regarding matters that have been or are to be included in the general meeting agenda. In addition, draft resolutions regarding matters included in the meeting agenda may be submitted by shareholders during the general meeting. Naturally, the Bank encourages shareholders to submit draft resolutions well in advance to ensure its general meetings run smoothly.

- 4.9.1 – Candidates for members of the supervisory board should be nominated with a notice necessary for shareholders present at the general meeting to make an informed decision and in any case no later than three days before the general meeting; the names of candidates and all related documents should be immediately published on the company's website.

Bank's comment: The rule is not complied with. The Bank does not have control or influence over the actions of its shareholders. However, the Bank advises shareholders to nominate candidates well in advance.

BOŚ fully applies the "Corporate Governance Principles for Supervised Institutions" issued by the PFSA.

2. Shareholding structure and rights attached to shares

2.1 Shareholders holding directly and indirectly 5% or more of total voting rights in the Bank.

The following shareholders held at least 5% of the share capital and total voting rights:

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

The total number of shares and voting rights in BOŚ S.A. is 92,947,671. All shares are ordinary bearer shares with a par value of PLN 10 per share.

2.2. Treasury shares

As at December 31st 2022, the Bank held 37,775 treasury shares, representing 0.04% of the share capital and 0.04% of total voting in the Bank.

In accordance with the Commercial Companies Code, the Bank may not exercise voting rights attached to the treasury shares.

2.3. Agreements concerning future changes in the shareholding structure

The Bank is not aware of any agreements concerning future changes in the shareholding structure.

2.4. 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.

2.5. 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 to use a registered share, the pledgee and the pledger are not entitled to exercise the voting rights. At present, there are no registered shares in the Bank's share capital.

2.6. 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.

2.7. Description of the manner of operation of the General Meeting and its basic scope of authorization and the rights of shareholders and the manner of exercising these rights

The method of convening, powers and operation of the General Meeting are provided for in the Articles of Association of the Bank. The following is the most relevant information about the powers of the General Meeting and how they are exercised.

- The General Meeting can be convened as the Annual or Extraordinary General Meeting.
- The Annual General Meeting is convened by the Management Board of the Bank within six months after the end of each financial year.
- The Supervisory Board has the right to convene the Annual General Meeting if the Management Board has failed to convene it within the time limit required by law.
- The agenda of the Annual General Meeting includes in particular:
 - consideration and approval of the statement of the Management Board on activity of the Bank and the financial statements for the previous financial 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 BOŚ Group and the consolidated financial statements of the of the BOŚ Group,
- 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 Art. 36.1 of the Bank's Articles of Association,
- 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 a proxy 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 a proxy 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 shareholder has the option to participate in the General Meeting either in person at the designated venue or through the use of electronic communication methods, if authorized by the convener of the General Meeting.
- The rules of participation, technical requirements and the Bank's and the shareholder's liability in the event that a shareholder participates in the General Meeting by means of electronic communication are specified in the Rules of Participation in the General Meeting by Means of Electronic Communication. The Rules are available on the Bank's website in the "Investor Relations" section under "Corporate Documents"(<https://www.bosbank.pl/informacje-korporacyjne/relacje-inwestorskie/dokumenty-korporacyjne>).

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.

3. Governing bodies

3.1. 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 2.7.

3.2. Supervisory Board of the Bank

Supervisory Board

As at December 31st 2021, the composition of the Supervisory Board was as follows:

- Emil Ślęzak, Chairman of the Supervisory Board
- Ireneusz Purgacz, Deputy Chairman of the Supervisory Board
- Paweł Sałek, Secretary of the Supervisory Board
- Leszek Banaszak, Member of the Supervisory Board
- Robert Czarnecki, Member of the Supervisory Board
- Zbigniew Dynak, Member of the Supervisory Board
- Janina Goss, Member of the Supervisory Board
- Marcin Jastrzębski, Member of the Supervisory Board
- Andrzej Matysiak, Member of the Supervisory Board
- Piotr Wróbel, Member of the Supervisory Board

The term of office of the Supervisory Board expired on June 30th 2022, the date of the Annual General Meeting of BOŚ S.A. The Annual General Meeting appointed the Supervisory Board of the new 12th term of office. On November 23rd 2022, the Supervisory Board:

On December 8th 2022, Janina Goss resigned from her position on the Supervisory Board with effect as of December 10th 2022.

As at December 31st 2022, the composition of the Supervisory Board was as follows:

- Piotr Sadownik, Chairman of the Supervisory Board
- Iwona Marciniak, Deputy Chairwoman of the Supervisory Board
- Andrzej Matysiak, Secretary of the Supervisory Board
- Piotr Bielarczyk, Member of the Supervisory Board
- Paweł Sałek, Member of the Supervisory Board
- Emil Ślązak, delegated to temporarily perform the duties of President of the Management Board
- Aleksandra Świdorska, Member of the Supervisory Board
- Tadeusz Wyrzykowski, Member of the Supervisory Board

Independence of the Supervisory Board members

As at December 31st 2022, the following members of the Supervisory Board:

- met the independence criteria: Mr Piotr Sadownik, Mr Paweł Sałek, Mr Emil Ślązak, Ms Aleksandra Świdorska;
- did not meet the independence criteria: Ms Iwona Marciniak, Mr Andrzej Matysiak, Mr Tadeusz Wyrzykowski, Mr Piotr Bielarczyk.

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 financial 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:

- approving the business strategy of BOŚ S.A. and the Bank's annual budgets,

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- approving 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,
- approving the policy for estimation of internal capital and capital management,
- approving the remuneration policy,
- approving the compliance policy of the Bank,
- approving the information policy of the Bank, including disclosures,
- approving 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,
- notifying the Polish Financial Supervision Authority of the composition of the Management Board and of any change in its composition as soon as the Management Board is appointed or its composition is changed, of the Management Board members' compliance with the requirements referred to in Art. 22aa of the Banking Law, as well as of approval and change of the internal division of powers within the Management Board, notifying the Polish Financial Supervision Authority of placing on the Board's agenda an item concerning dismissal of the President of the Management Board or the member of the Management Board who supervises the management of risks significant for the Bank's business, or assigning another member of the Management Board to take over the responsibility,
- assessing the Directors' Report on the operations of the Bank and the financial statements for the previous financial year with regard to their compliance with the books, documents and facts, and assessment of the Management Board's requests concerning profit distribution or loss coverage, as well as submission to the General Meeting of an annual written report on results of the assessment,
- assessing the Directors' Report on the operations of the BOŚ Group and the financial consolidated statements of the BOŚ Group for the previous financial year with regard to their compliance with the books, documents and facts, as well as submission to the General Meeting of an annual written report on results of the assessment,
- defining the terms and conditions of employment, including the terms of other legal relations than employment, for members of the Bank's Management Board, based on the rules of remuneration for members of the Management Board determined by the General Meeting, and entering into management services contracts with members of the Management Board on behalf of the Bank. The Supervisory Board may authorise the Chairperson of the Supervisory Board to enter into such contracts,
- approving rules for granting credits, cash loans, bank guarantees or sureties to members of the Bank's governing bodies and persons holding managerial positions at the Bank, as well as other persons listed in art. 79 of the Banking Law Act,
- passing 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,
- approving 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,
- selecting and appointing the independent auditor to conduct an audit of the financial statements and other experts,
- supervising implementation at the Bank of a management system comprising a risk management system and an internal control system, and assessing the adequacy and effectiveness of such systems,
- assessing periodic information on the level of banking risk and the quality of managing the risk,
- assessing 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,
- approving the procedure for establishing and terminating the employment relationship with the person in charge of the internal audit function and the person in charge of the compliance function, as well as approving the amount of remuneration of such persons,
- adopting a policy of evaluating the suitability of candidates for members of the Management Board, members of the Management Board, and the Management Board as a whole, and conducting qualification procedures for members of the Management Board,
- approving the internal division of powers within the Management Board;

- approving the rules of procedure of the internal audit unit (internal audit card) and approving the internal audit plan;
- approving the rules of procedure of the compliance unit and its annual action plans.

The powers and responsibilities of the Supervisory Board also include:

- drawing up an annual report on the activities of the Supervisory Board, together with a brief assessment of the Bank's situation on a consolidated basis, including an evaluation of the internal control systems, risk management and the compliance and internal audit functions – to be submitted to the General Meeting for approval,
- considering and evaluating information received from the Management Board on all material matters relating to the Bank's business,
- as part of the oversight over the Bank's internal control system and risk management system, and of the financial reporting process, in particular:
 - appointing the Internal Audit Committee and the Risk Committee, adopting by-laws defining the organization and tasks of these Committees and determining their composition,
 - approving the Bank's internal regulations, concerning in particular: the operation of the Bank's internal control system and the risk management system, and management of individual types of banking risk,
 - considering and evaluating periodic reports presenting the results of internal audits,
 - considering and evaluating periodic information on effectiveness of the internal control and risk management systems,
 - considering and evaluating periodic reports on compliance risk management,
 - considering and evaluating annual reports of the head of the internal audit function on the effectiveness of the internal control system, the risk management system, the compliance function and the internal audit function,
 - evaluating the adequacy and effectiveness of whistleblowing procedures,
 - considering and evaluating information presented by the auditor on the course and results of the audit of full-year financial statements of the Bank and its Group,
- appointing the Remuneration and Nominations Committee, adopting rules of procedure defining the organisation and tasks of the Committee and determining its composition,
- appointing members of the Environmental Protection Committee, adopting rules of procedure defining the organisation and tasks of the Committee and determining its composition,
- considering the Management Board's proposals concerning the Bank's intention to enter into a material contract/transaction with a related party, except for typical transactions executed on arm's-length terms in the ordinary course of business with a subsidiary in which the Bank holds a majority interest,
- supervising compliance by the Bank with its obligations related to the performance of the activities referred to in Art. 70.2 of the Act on Trading in Financial Instruments,
- giving consent for the members of the Management Board to serve on bodies of entities outside the Group,
- exercising supervision over the implementation of internal governance in the Bank and assessing, at least once a year, its adequacy and effectiveness, in particular taking into account any changes in internal and external factors affecting the Bank,
- giving consent to the conclusion by the Bank of contracts for the provision of legal services, marketing services, public relations and social communication services, as well as management consulting services if the total consideration for the services to be provided under a single contract exceeds PLN 250,000 net a year, or where an amendment to such a contract is to increase the consideration above the amount, or where the contract does not provide for the maximum amount of consideration,
- giving consent for the Bank to enter into an agreement:
 - for donation or any other agreement of similar effect with a value exceeding PLN 20,000 or 0.1% of the total assets within the meaning of the Accounting Act of September 29th 1994, as determined on the basis of the most recent approved financial statements,
 - for release from debt or any other agreement of similar effect, with a value exceeding PLN 50,000 or 0.1% of the total assets within the meaning of the Accounting Act of September 29th 1994, as determined on the basis of the most recent approved financial statements,

- approving the policy for identifying key functions at the Bank and appointing and removing persons discharging those functions,
- approving Code of Ethics that defines norms and ethical standards of conduct of members of the Bank's governing bodies and employees, as well as other persons through whom the Bank conducts its business,
- approving the policy for managing conflicts of interest,
- approving the Bank's remuneration rules and supervising their application; also evaluating, at least once a year, their impact on the Bank's management,
- approving the principles of risk culture for the Bank as a whole,
- approving the 'New Product Approval Policy',
- preparing the annual plan of work of the Supervisory Board,

Meetings of the Supervisory Board are convened by the chairman as necessary, at least once every quarter. At least seven days prior to the date of a Supervisory Board meeting, members are notified of the time, place and agenda of the meeting in writing and receive materials to be discussed during the meeting. A request for convening the Supervisory Board meeting can be submitted to the chairman by any member 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 adopting resolutions by casting their votes in writing through another member of the Board or by means of direct remote communication. Matters placed on the agenda during the Supervisory Board meeting may not be voted on in writing through another member of the Supervisory Board.

In exceptional situations, the Supervisory Board may adopt resolutions outside of meetings, in writing (by circulation) or using means of direct remote communication, in particular electronic mail. A resolution is valid if all members of the Supervisory Board have been notified of the content of the draft resolution and at least a half of all members, including the chairman or the deputy chairman, have voted.

The Supervisory Board may adopt resolutions by written ballot or by means of remote communication also in matters with respect to which the Articles of Association of the Bank prescribe voting by secret ballot, provided that no member of the Supervisory Board raises an objection.

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 powers, rules of operation and tasks of the Supervisory Board are laid down in Art. 17–Art. 20 of the Bank's Articles of Association and in the Regulations of the Supervisory Board (the documents are available on the Bank's website www.bosbank.pl in the 'Investor Relations' section).

From among its members the Supervisory Board of the Bank appoints the Internal Audit Committee, the Remuneration and Nominations Committee, the Environmental Protection Committee, the Risk Committee, and the Strategy and Development Committee. The Board members may also form other committees.

The Internal Audit Committee

Duties:

The Internal Audit Committee (IAC) is appointed by resolution of the Supervisory Board to support its activities by directly supervising the Bank's management system, in particular, the internal control system, as well as the financial reporting and financial auditing processes.

The IAC's primary duties include:

- Monitoring of:
- financial reporting process,
- effectiveness of internal control and risk management systems, and of internal audit, including with respect to financial reporting,
- performance of financial audits, in particular of audits conducted by the audit firm, taking into consideration all recommendations and findings of the Audit Oversight Commission, related to the audit carried out at the audit firm;
- Checking and monitoring independence of the statutory auditor and audit firm, in particular, if any services other than audit are provided by the audit firm to the Bank;
- Reporting outcomes of the audit to the Supervisory Board and explaining how the audit contributed to reliability of financial reporting of the Bank and what role the Committee played in the audit process;
- Assessing independence of the auditor and approving the provision of permitted non-audit services by the auditor;
- Developing a policy for selection of an audit firm to perform audits;
- Developing a policy for provision of permitted non-audit services by the audit firm, its affiliates and members of its network;
- Establishing the Bank's audit firm selection procedure;
- Giving recommendations to ensure reliability of the Bank's financial reporting process;
- Exercising supervision over the activities of the internal audit unit, in particular over the proper location of the internal audit unit within the Bank's organisational structure, ensuring independence of its operation, in accordance with the supervisory regulations.

Details concerning the IAC's responsibilities, powers and organisational structure are set forth in the rules of procedure entitled 'Organisation and Tasks of the Internal Audit Committee', adopted by Supervisory Board Resolution 71/2020 of November 25th 2020.

In the reporting period, the Committee performed the tasks prescribed for the Committee, among others, in the following documents:

- Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017;
- Articles of Association of Bank Ochrony Środowiska S.A.;
- Resolutions of the Bank's Supervisory Board.

Moreover, in 2022, the Internal Audit Committee followed the guidelines contained in:

- Recommendation H and Recommendation L of the Polish Financial Supervision Authority;
- Regulation of the Minister of Development and Finance of June 8th 2021 on risk management and internal control systems, and on remuneration policy;
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of April 16th 2014 on specific requirements regarding statutory audit of public-interest entities;
- Best Practice for GPW (WSE) Listed Companies 2021;
- Principles of Corporate Governance for Supervised Institutions endorsed in the Resolution of the Polish Financial Supervision Authority of July 22nd 2014;
- PFSA's recommendations and guidelines on the operation of audit committees;
- Best practices for public-interest entities regarding appointment, composition and operation of audit committees and the methodology for assessing the suitability of members of the governing bodies of supervised entities, issued by the Polish Financial Supervision Authority;

- Commission Delegated Regulation (EU) 2017/565 of April 25th 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive;
- Act on Trading in Financial Instruments of July 29th 2005 with secondary legislation, including in particular the Regulation of the Minister of Finance of May 29th 2018 on specific technical and organisational requirements applicable to investment firms, banks referred to in Art. 70.2 of the Act on Trading in Financial Instruments, and custodian banks.

IAC's composition and suitability assessment of candidates:

- Members of the Internal Audit Committee are appointed from among the members of the Supervisory Board. Pursuant to the IAC's rules of procedure endorsed in Resolution 71/2020 of the Supervisory Board of BOŚ S.A. (as amended),
- the IAS is composed of at least three members of the Supervisory Board of BOŚ S.A., including the Chairperson and Deputy Chairperson.
- The IAC's members are appointed and their suitability is assessed pursuant to the provisions of the 'Policy for assessing the suitability of candidates for members of the Supervisory Board, members of the Supervisory Board, and the Supervisory Board of Bank Ochrony Środowiska S.A.' (hereinafter referred to as the 'Suitability Assessment Policy'), endorsed in Resolution 27/2020 of the Ordinary General Meeting of BOŚ S.A. of June 17th 2020, and then in Resolution No. 37/2022 of the Annual General Meeting of BOŚ S.A. of June 30th 2022

The following issues are taken into account when assessing the suitability to serve as members of the Internal Audit Committee:

- Composition (at least 3 members) and independence of the IAC's members (majority of the IAC's members, including the IAC's chairperson, should be independent),
- Ensuring that at least one IAC's member has knowledge and skills concerning: accounting or financial auditing, and the banking sector, performance of the activities referred to in Art. 70.2 of the Act on Trading in Financial Instruments;
- fulfilment by the IAC's members of the obligations laid down in the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017.

Suitability assessment of candidates for the members of the Internal Audit Committee is performed in line with the 'Suitability Assessment Methodology Applicable to Members of Governing Bodies of Entities Supervised by the Polish Financial Supervision Authority', issued in January 2020 by the Polish Financial Supervision Authority.

In the reporting period, the Supervisory Board performed individual suitability assessment of candidates for and members of the IAC and collective suitability assessment of the IAC, based on recommendations of the Remuneration and Nominations Committee (RNC). Based on the submitted statements and self-evaluation forms, the RNC reviewed the IAC's candidates' and members' knowledge and skills concerning accounting, financial auditing and the sector in which BOŚ S.A. operates, and assessed their compliance with the independence criteria. The Supervisory Board of BOŚ S.A., taking into consideration the recommendation of the Remuneration and Nominations Committee of the Supervisory Board of BOŚ S.A. in the matter of collective suitability assessment, concluded that the competences of the individual members of the IAC (whose composition was approved by Resolution No. 38/2022 of the Supervisory Board of June 30th 2022, and subsequently amended by Resolution No. 95/2022 of the Supervisory Board of December 19th 2022) adequately complement each other and at the collegial level ensure:

- maintaining an appropriate level of independence;
- possessing knowledge and skills concerning:
 - accounting or financial auditing, and the banking sector,
 - performance of the activities referred to in Art. 70.2 of the Act on Trading in Financial Instruments;
- fulfilment of the obligations laid down in the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017.

The assessment of the individual suitability of the candidates for the IAC was conducted based on the statements they submitted as required by the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th, 2017. This assessment followed the procedure outlined in the Suitability Assessment Policy.

During the reporting period, the composition of the Internal Audit Committee was as follows:

Composition of the IAC in the period from January 1st 2022 to June 29th 2022

- Zbigniew Dynak – Chairman of the Committee;
- Emil Ślęzak – Deputy Chairman of the Committee;
- Leszek Banaszak – Member of the Committee;
- Ireneusz Purgacz – Member of the Committee.

Composition of the IAC in the period from June 30th 2022 to September 27th 2022

- Aleksandra Świdorska – Chairwoman of the Committee,
- Emil Ślęzak – Deputy Chairman of the Committee;
- Iwona Marciniak – Member of the Committee;
- Paweł Sałek – Member of the Committee.

Composition of the IAC in the period from September 28th 2022 to December 18th 2022

- Aleksandra Świdorska – Chairwoman of the Committee,
- Emil Ślęzak – Deputy Chairman of the Committee;
- Iwona Marciniak – Member of the Committee.

Composition of the IAC in the period from December 19th 2022 to December 31st 2022

- Aleksandra Świdorska – Chairwoman of the Committee,
- Emil Ślęzak – Deputy Chairman of the Committee;
- Iwona Marciniak – Member of the Committee.
- Paweł Sałek – Member of the Committee.

Organisation of the IAC's work

The Internal Audit Committee performs its statutory duties in line with its annual work plan which is monitored on an ongoing basis and updated as necessary, at IAC's meetings, in accordance with the adopted meeting agenda. In 2022, meetings of the Internal Audit Committee were convened on a regular basis. During 14 meetings held throughout 2022, the IAC considered motions submitted by the Bank's business units and made relevant decisions, in compliance with applicable procedures for conducting meetings and voting.

The Risk Committee

The Risk Committee supports the Supervisory Board in its risk oversight functions. The Committee performs the tasks provided for in the Banking Law Act of August 29th 1997, in the Bank's Articles of Association and in resolutions of the Bank's Supervisory Board.

The Risk Committee's primary tasks include, in particular:

- Issuing comprehensive opinions on the Bank's current and future willingness to accept risk, including:
 - receiving periodic reports/ information from the Bank's Management Board on key events relevant for Bank's risk level and on material changes in the risk management process and system,
 - receiving periodic reports/information from the Bank's Management Board on the Bank's risk level, increased exposure to specific risks, risk identification and monitoring methods, risk mitigation measures in place;
- Issuing opinions on the Bank's business risk management strategy developed by the Management Board and the Management Board's updates on the strategy implementation;
- Supporting the Bank's Supervisory Board in exercising supervision over the implementation of the business risk management strategy by senior management staff;

- Reviewing the prices of assets and liabilities offered to clients for their alignment with the Bank's business model and risk strategy, and where the prices fail to properly account for the risks stemming from the Bank's business model and risk strategy - recommending measures to be undertaken by the Management Board to ensure that the prices of assets and liabilities adequately reflect the risks involved.

In 2022, the Risk Committee consisted of the following members:

- from January 31st 2022 to June 30th 2022:
Emil Ślęzak – Chairman of the Committee;
Leszek Banaszak – Deputy Chairman of the Committee;
Andrzej Matysiak – Member of the Committee.
- from June 30th 2022 to September 28th 2022:
Emil Ślęzak – Chairman of the Committee;
Tadeusz Wyrzykowski, Deputy Chairman of the Committee;
Iwona Marciniak – Member of the Committee;
Andrzej Matysiak – Member of the Committee.
- from September 28th 2022 to December 19th 2022:
Paweł Sałek – Chairman of the Committee;
Tadeusz Wyrzykowski, Deputy Chairman of the Committee;
Iwona Marciniak – Member of the Committee;
Piotr Sadownik – Member of the Committee;
Emil Ślęzak – Member of the Committee, delegated to temporarily perform the duties of President of the Management Board.
- from December 19th 2022 to December 31st 2022:
Aleksandra Świdorska – Chairwoman of the Committee;
Tadeusz Wyrzykowski, Deputy Chairman of the Committee;
Iwona Marciniak – Member of the Committee;
Piotr Sadownik – Member of the Committee;
Emil Ślęzak – Member of the Committee, delegated to temporarily perform the duties of President of the Management Board

In 2022, the Risk Committee held a total of 12 meetings.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee (RNC) has been appointed from among members of the Supervisory Board to perform the tasks laid down, among others, in the following documents:

- Articles 9cd., 9ce. and 22aa of the Banking Law – with regard to diversity and the policy for assessing the suitability of the persons referred to in point 2;
- Art. 9ca. of the Banking Law Act and the Regulation of the Minister of Development and Finance of June 8th 2021 on banks' risk management and internal control systems, and on remuneration policy – with respect to the remuneration policy;
- Regulation of the Minister of Finance of May 7th 2018 on the detailed scope of tasks of nomination committees in significant banks,
- resolutions of the Supervisory Board,

including in particular:

- the tasks concerning the suitability assessment of candidates for the members and members of the Supervisory Board and of the Supervisory Board:
 - issuing opinions on the draft suitability assessment policy and amendments thereto;
 - furnishing the General Meeting with reports from the documentation and credibility review performed in order to assess the suitability of a candidate for a member or a member of the Bank's Supervisory Board;

- furnishing the General Meeting or the Supervisory Board, as applicable, with proposed individual suitability assessments of candidates for members or members of the Supervisory Board/Internal Audit Committee and proposed collective suitability assessment of the Supervisory Board/Internal Audit Committee;
 - providing feedback to persons subject to suitability assessment procedure;
- the tasks concerning the suitability assessment of candidates for members and members of the Management Board and of the Management Board:
 - issuing opinions on the draft suitability assessment policy and amendments thereto;
 - furnishing the Supervisory Board with reports from the documentation and credibility review performed in order to assess the suitability of a candidate for a member or a member of the Bank's Management Board;
 - recommending candidates to the Bank's Management Board, taking into account the knowledge, skills and experience of the Management Board as a whole, and the diversity of the Management Board's composition;
 - furnishing the Supervisory Board with proposed individual suitability assessments of candidates for members or members of the Management Board and proposed collective suitability assessment of the Management Board;
 - defining the scope of responsibilities for a candidate for the Management Board, the scope of required knowledge and skills, and expected time commitment, necessary to perform the function;
 - performing periodic, at least annual, evaluation of the knowledge, skills and experience of the Management Board as a whole and of its individual members; reporting the evaluation results to the Management Board;
 - providing feedback on the individual suitability assessment to persons subject to such assessment;
- the tasks concerning the suitability assessment of candidates for key functions at the Bank or persons holding such key functions:
 - issuing opinions on the draft suitability assessment policy and amendments thereto;
 - performing periodic reviews of the suitability assessment policy and presenting recommendations to the Board in this regard;
- the tasks concerning the diversity policy applicable to the members of the Bank's Management Board - setting the gender representation target for the gender underrepresented in the Bank's Management Board, and drafting the Management Board diversity policy with a view to achieving the set representation target;
- the tasks concerning the remuneration policy - issuing opinions and ongoing monitoring of the Bank's remuneration policy, supporting the Bank's governing bodies in designing and implementing the remuneration policy through:
 - giving opinions on the list of persons holding key managerial positions in the Bank and on annual list updates;
 - designing remuneration packages for the members of the Management Board, including variable remuneration amounts and components, factors affecting variable remuneration, and performance evaluation criteria; recommending the same to the Supervisory Board;
 - giving recommendations to the Supervisory Board on awarding, reducing, withholding, or refusing to pay variable remuneration of the members of the Management Board;
 - giving opinions on the amounts of variable remuneration for persons holding managerial positions in the Bank, involved in risk management and compliance;
 - giving opinions on and monitoring of variable remuneration for persons holding managerial positions, in charge of first and second line of defence in risk management, other than those specified in item d;
 - giving opinions on the remuneration policy of the Group and on assessment of the materiality of the subsidiaries' impact on the risk profile of the Bank;
- performing, at least annual, periodic evaluation of the size structure, composition and efficiency of the Management Board and recommending changes in this respect to the Supervisory Board.
- approving costs related to the provision of management services incurred by members of the Management Board to the extent specified by the Supervisory Board in the management services contract;

- approving costs of individual training of members of the Management Board where such costs exceed the amount specified by the Supervisory Board in the management services contract.

In 2022, the Remuneration and Nominations Committee consisted of the following members:

Attendance at meetings held in the first half of 2022 (meeting minutes No. 1/2022 – 6/2022):

- Ireneusz Purgacz, Chairman of the Committee,
- Piotr Wróbel, Deputy Chairman of the Committee,
- Robert Czarnecki – Member of the Committee,
- Janina Goss, Member of the Committee.

Attendance at meetings held in the second half of 2022 (meeting minutes No. 7/2022 – 13/2022):

- Piotr Sadownik, Chairman of the Committee,
- Piotr Bielarczyk, Deputy Chairman of the Committee,
- Janina Goss, Member of the Committee (until the meeting of November 23rd 2022, meeting minutes Nos. 10/2022 and 11/2022),
- Tadeusz Wyrzykowski, Member of the Committee,
- Andrzej Matysiak, Member of the Committee (from the meeting of October 26th 2022, meeting minutes No. 9/2022).

Meetings of the RNC are convened as necessary, but not less frequently than twice a year. In the reporting period, the Committee held a total of 10 meetings.

Environmental Protection Committee

The Environmental Protection Committee (EPC) is an advisory body appointed by the Bank's Supervisory Board. The EPC supports the Supervisory Board in pursuing environmental initiatives of BOŚ. The tasks of the EPC include giving opinions and recommendations for the Supervisory Board (on a regular basis) and presenting quarterly reports on the Bank's environmental activities, initiatives and types of environmental projects financed by the Bank. The EPC facilitates the Bank's cooperation with the National and Provincial Funds for Environmental Protection and Water Management and with public administration bodies, including the Ministry of Climate and Environment.

In 2022, the EPC consisted of the following members:

- Andrzej Matysiak, Chairman of the Committee (January 1st – December 31st 2022),
- Paweł Sałek, Deputy Chairman of the Committee (January 1st – December 19th 2022),
- Tadeusz Wyrzykowski, Deputy Chairman of the Committee (December 19th – December 31st 2022),
- Janina Goss, Member of the Committee (January 1st – December 19th 2022),
- Marcin Jastrzębski, Member of the Committee (January 1st – June 30th 2022),
- Piotr Bielarczyk, Member of the Committee (June 30th 2022 – December 31st 2022)

Meetings of the Environmental Protection Committee are convened by the Chairman when and as needed. In 2022, the Committee held a total of six meetings in 2022. During the meetings, the EPC members discussed recommendations for the Supervisory Board made in (quarterly) reports on the Bank's environmental activities, which included, among others, information on the sales and balance of green loans and on environmental projects. Every quarter, the EPC presented information on the cooperation with the National and Provincial Funds for Environmental Protection and Water Management.

The EPC also discussed other significant issues that affect the operations of the Bank. In particular, the EPC presented its opinion on the update of the Bank's Climate Policy, as well as information on the implementation of the Bank's ESG Strategy. The documents were adopted by the Supervisory Board, taking into consideration the recommendations made by the EPC.

Strategy and Development Committee

The Strategy and Development Committee (SDC) provided support to the Supervisory Board from November 2020 to mid-2022 regarding the Bank's future development directions. The SDC performs the following tasks:

- monitors the preparation of Bank's strategy in line with the schedule;
- monitors the implementation of the Bank's business strategy;
- presents to the Supervisory Board its position regarding the desired changes in further strategic growth directions for the Bank and the Group;
- presents its opinions concerning information submitted to the Supervisory Board on:
 - the Bank's and the Group's business strategy under preparation,
 - implementation of the adopted strategic objectives, as part of the annual reporting process,
 - reasons for updating the Bank's business strategy;
- performs other tasks supporting the oversight of implementation of the Bank's business strategy, as requested by the Supervisory Board.

In 2022, the Risk Committee consisted of the following members:

- Marcin Jastrzębski – Chairman of the Committee,
- Robert Czarnecki – Deputy Chairman of the Committee,
- Piotr Wróbel – Member of the Committee,
- Zbigniew Dynak – Member of the Committee.

In 2022, Strategy and Development Committee held a total of 19 meetings.

3.3. Management Board of the Bank

Management Board

As at December 31st 2021, the composition of the Management Board was as follows:

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

As at December 31st 2022, the composition of the Management Board was as follows:

- Emil Ślązak – Member of the Supervisory Board delegated to temporarily perform the duties of President of the Management Board
- Arkadiusz Garbarczyk, Vice President of the Management Board, First Deputy President of the Management Board
- Robert Kasprzak, Vice President of the Management Board
- Jerzy Zań, Vice President of the Management Board.

In 2022, the composition of the Management Board underwent the following changes:

- Ms Marzena Kocut resigned as Vice President of the Management Board, effective as of 6.00 pm on May 23rd 2022.
- Effective November 23rd 2022, the Supervisory Board dismissed Wojciech Hann from his position as President of the Bank's Management Board;
- Effective November 23rd 2022, the Supervisory Board delegated Emil Slazak to temporarily perform the duties of President of the Management Board, no longer than until February 23rd 2023;

The rules of operation, powers and tasks of the Management Board are laid down in Art. 21–Art. 23 of the Articles of Association and in the Rules of Procedure of the Management Board (the documents are available on the Bank's website www.bosbank.pl in the "Investor Relations" section).

According to the provisions outlined in the Bank's Articles of Association, the Management Board of the Bank comprises a minimum of three natural persons, including the President of the Management Board, the Vice President - First Deputy President of the Management Board, and other Vice Presidents or members of the Management Board.

The Management Board serves as a management body of the Bank and assumes the role of its official representative in external matters. The Board operates in a collegial manner, making decisions through the adoption of resolutions.

The Management Board complies with the corporate governance principles set out 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.

Any non-compliance with the aforementioned rules is notified by the Management Board in accordance with the procedures set out in those documents.

Resolutions of the Management Board are adopted at meetings convened in accordance with the procedure set out in the Rules of Procedure of the Management Board.

- Resolutions are passed with a simple majority of votes cast. In the event of a tied vote, the President of the Management Board has the casting vote. Resolutions are adopted by open ballot, unless a motion for a secret ballot has been made or unless separate regulations require a secret ballot
- Resolutions may be adopted if all members of the Management Board have been notified of the Management Board meeting, and at least half of the members of the Management Board attend the meeting, including the President of the Management Board or - in his absence - the Vice President - First Deputy President of the Management Board or another member of the Management Board designated by the President.
- A member of the Management Board who disagrees with a resolution may submit a dissenting opinion to be included in the minutes, together with the justification. However, this does not relieve them of the obligation to comply with the resolution adopted by the Management Board,
- A member of the Management Board may not participate in voting on matters concerning them personally, including such matters in which there is a conflict between the interests of the Bank and the personal interests of the member of the Management Board, their spouse, relatives or affinities,
- Meetings of the Management Board are minuted.

The Management Board may also adopt resolutions outside its meetings, by written ballot or using means of remote communication (in particular by electronic mail). Resolutions may be adopted in this manner subject to a prior consent of the President of the Management Board. Appropriate regulations are included in the Rules of Procedure of the Management Board.

Meetings of the Management Board are convened by the President of the Management Board as needed, at least twice a month. The President of the Management Board, upon a justified request of a Member of the Management Board or on his own initiative, may convene a meeting of the Management Board as a matter of urgency, specifying the date, place and agenda of the meeting.

Meetings of the Management Board are attended by its members, the person in charge of the internal audit unit, the person in charge of the compliance unit, as well as other invited persons or persons indicated in a separate order of the President of the Management Board. Persons participating in a meeting may also take part in its proceedings by means of direct remote communication, including instant messaging/applications enabling tele- or videoconferencing. At meetings of the Management Board, the President presents a draft agenda for approval, chairs the meeting, gives the floor, decides on procedural matters, summarises findings and results of discussions, and formulates resolutions, recommendations and conclusions. Where justified by business or formal and legal considerations, a Board Member may – with the consent of the President of the Management Board – bring to the Board's attention a subject not included in the meeting agenda.

In the event of expiry of the mandate of the President of the Management Board due to death, resignation or removal 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.

In the absence of the President of the Management Board, his/her functions are performed and the Bank is managed in its entirety (with the exception of competencies relating to the establishment and termination of the relevant employment relationship with managing directors, directors of organisational units of the Head Office and directors of business centres) by the Vice President –First Deputy of the President of the Management Board or another member of the Management Board indicated by the President. Vice Presidents or members of the Management Board supervise the areas of the Bank's operations assigned to them, in accordance with the internal division of powers determined by the Management Board and approved by the Supervisory Board.

4. Control systems deployed in financial reporting

Internal control system

The Bank has an internal control system that functions as an integral part of its overall management system. This system outlines the structural and organizational elements of the internal control system and defines the goals, objectives, and operational procedures of its key components within the BOŚ Group.

The internal control system supports the Bank's Supervisory Board, Internal Audit Committee, Management Board and employees in the proper, efficient and effective performance of their duties.

The internal control system within the Bank operates in a manner that guarantees the fulfilment of the objectives outlined in Article 9c (1) of the Banking Law. These objectives include, but are not limited to:

- efficiency and effectiveness of the Bank's operations;
- reliability of financial reporting;
- compliance with the Bank's risk management framework;
- Compliance of the Bank's operations with applicable laws, internal regulations and market standards.

The Bank's risk management and internal control systems are organised on three independent levels:

- Level 1 comprises operational risk management;
- Level 2 comprises at least:
 - risk management by employees or functions specifically appointed/established for that purpose, independent of operational risk management,
 - activities of the compliance function;

Within the Bank's internal control system, employees at all three levels effectively implement control measures as part of their responsibilities. They independently oversee adherence to these controls and report accordingly within the scope of the control function.

The Bank's three-level internal control structure includes:

- the control function, operating at all three levels, particularly at Level 1, i.e. as part of the Bank's operations; the control function is designed to ensure compliance with controls and covers positions, groups of people, or organisational units in charge of the tasks assigned to the function;
- Level 2 compliance function, complementing risk management by employees or functions specifically appointed/established for that purpose. the compliance function is responsible for identification, assessment, control and monitoring of the Bank's risk of non-compliance with law, internal regulations and market standards, and related reporting;
- Level 3 internal audit function. The role of the internal audit function is to independently and impartially examine and evaluate the adequacy and effectiveness of the risk management system and the internal control system, excluding the internal audit function.

The Bank deploys various controls to reduce the likelihood of risk materialisation, detect and remedy incidents that have occurred, and eliminate their consequences. Control mechanisms are integrated during the creation of internal regulations, as well as during the development of applications and information systems, embedding them into the foundation of these structures.

The Bank's organizational structure incorporates a compliance function. This role manages compliance risk, which includes identifying, assessing, and controlling compliance risk within the Bank and the BOŚ S.A. Group. Organizationally, the compliance function reports directly to the President of the Management Board.

Internal audit is an integral and independent part of the Bank's internal control system, positioned in its third line of defence. Internal audit is performed by the internal audit function, a separate unit within the Bank's organisational structure, established so as to ensure its full independence and objectivity, which reports directly to the President of the Management Board and is supervised by the Internal Audit Committee.

The role of the internal audit function is to independently and impartially examine and evaluate the adequacy and effectiveness of the risk management system and internal control system (excluding the internal audit function) of the Bank and its subsidiaries.

The internal audit unit evaluates the implementation of processes and contributes to their improvement, including in particular business processes, risk management processes, and corporate governance processes, as well as associated control mechanisms applied in the course of such processes.

Independence of the internal audit function and compliance function are ensured by specially designed measures which are described in the Resolution of the Management Board and Supervisory Board on "Internal Control System at BOŚ S.A.".

Role of the Bank's bodies in the internal control system

The Supervisory Board's role is to exercise ongoing supervision over implementation of the Bank's internal control system and whistleblowing procedures for anonymous reporting of any breaches of legal regulations, in-house procedures and ethical standards at the Bank, and to evaluate their adequacy and effectiveness.

Annually, guided by the Internal Audit Committee's review, the Supervisory Board evaluates the adequacy and effectiveness of the internal control system. This system encompasses the control function, the compliance function, and the internal audit function.

In exercising supervision over the Bank's activities, the Supervisory Board monitors the effectiveness of the internal control system based on information provided by the compliance unit, the internal audit unit, the Management Board and the Internal Audit Committee.

The Internal Audit Committee directly supervises the Bank's internal audit unit, monitoring the adequacy and effectiveness of the internal control system, including the internal audit unit, compliance unit and control function. The Internal Audit Committee supports the Supervisory Board in overseeing the internal control system.

The role of the Bank's Management Board is to design, deploy and ensure proper operation of the internal control system and whistleblowing procedures for anonymous reporting of breaches of legal regulations, in-house procedures and ethical standards.

The Bank's Management Board holds the responsibility for designing, implementing, and maintaining an adequate and effective internal control system. This system includes the control function, compliance function, and internal audit function. The Management Board also ensures the independence of both the internal audit and compliance functions.

The Management Board also ensures the functioning of the internal control system at subsidiaries.

The Board takes measures to ensure the ongoing operation of the internal control system. This includes fostering effective collaboration among all employees within the control function and maintaining cooperation with the compliance function and internal audit function. Furthermore, the Management Board ensures that employees in these departments have access to the required source documents, including those containing legally protected information, to fulfil their responsibilities.

If any irregularities are identified by the internal control system, the Management Board will take necessary actions, which may include implementing appropriate corrective measures and disciplinary actions, to address and rectify the identified irregularities.

The Management Board submits information to the Supervisory Board on a yearly basis regarding the execution of tasks, which serves as the basis for the Supervisory Board's assessment of the effectiveness and adequacy of the internal control system.

The heads of the internal audit function and the compliance function are obligated to maintain continuous cooperation with the President of the Management Board, the Bank's Management Board, and the Chairman of the Internal Audit Committee. This collaboration entails promptly notifying them of any significant disruptions detected in the Bank's and BOŚ S.A. Group entities' operations, as well as identifying gaps and inefficiencies within the internal control system and the risk management system. Additionally, they are responsible for submitting proposals to enhance the systems and address any inefficiencies.

Controls applied in financial reporting

The Bank applies various controls in order to ensure reliability and accuracy of financial reporting (i.e. the process of preparing financial statements). They are incorporated in the functionality of reporting systems and internal regulations, and include, among other things: ongoing validation and reconciliation of the reporting data with the accounting books as well as underlying analytical and other documents serving as a basis for the preparation of financial statements, and with generally applicable accounting and financial reporting laws and regulations.

The process of preparing financial statements is subject to a review, in particular for correctness of reconciliations and substantive analysis and for reliability of information. Annual financial statements are reviewed by the Internal Audit Committee, approved by the Supervisory Board and accepted for publication by the Management Board of BOŚ S.A.

In addition, the Supervisory Board performs an annual review of the full-year consolidated financial statements of the BOŚ Group, full-year financial statements of the Bank and of the Directors' Report on the operations of the BOŚ Group prepared together with the Directors' Report on the operations of BOŚ S.A., for their conformity with the books, documents and facts.

The role of the Internal Audit Committee (IAC) is to support the Supervisory Board through exercising direct supervision over the Bank's management system, in particular, the internal control system and the financial reporting and audit processes.

The IAC's duties include, in particular, the monitoring of:

- financial reporting process,
- effectiveness of internal control and risk management systems, and of internal audit, including with respect to financial reporting,
- financial audits activities, in particular audits conducted by audit firms, taking into consideration all recommendations and findings of the Audit Oversight Commission, related to the audit carried out at the audit firm.

A detailed description of the IAC's activities is provided above in Section. 3.2.

5. Conflicts of interest at BOŚ S.A.

The Bank applies conflicts of interest management procedures, including the rules for preventing conflicts of interest. The Rules of Procedure of the Management Board and the Supervisory Board define the procedures for excluding members of these bodies from participating in discussions or decisions on matters involving a conflict of interest. Where a conflict of interest exists or may arise, the persons concerned are obliged to disclose this fact.

Moreover, the Bank applies internal regulations on acceptance of benefits or gifts that could influence the impartiality and neutrality of decisions concerning clients or entities cooperating with the Bank.

6. Remuneration policy at BOŚ S.A.

6.1. Management Remuneration Policy

In order to meet the requirements set out in the Regulation of the Minister Finance, Development Funds and Regional Policy of June 8th 2021 on banks' risk management and internal control systems, and on remuneration policy, and in accordance with Directive 2013/36/EU of the European Parliament and of the Council of June 26th 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the Bank has implemented a Management Remuneration Policy, approved by the Supervisory Board of BOŚ S.A..

The Remuneration and Appointments Committee of the Supervisory Board gives its opinion on the Compensation Policy, gives its opinion on and drafts rules of compensation of members of the Management Board, gives its opinion on the amount of variable remuneration for managers, gives its opinion on and monitors the amount of variable remuneration for managers at the Bank responsible for second-level risk management, management of the compliance function and management of the internal audit function.

In the reporting period, the Compensation Policy was not revised.

During the reporting period:

- the third (out of three) portions of deferred variable remuneration for 2018 was settled; the total expected cost will amount to PLN 113.5 thousand gross, including payments in the form of phantom shares constituting a short-term benefit to be paid after the lapse of the retention period, i.e., after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 7,785 shares, and the amount of PLN 56.8 thousand gross was paid in cash as a short-term benefit;
- the second (of three) tranche of deferred variable remuneration for 2019 was settled; the total expected cost will amount to PLN 96.9 thousand gross, including payments in the form of phantom shares constituting a short-term benefit to be paid after the lapse of the retention period, i.e., after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 7,071 shares, and the amount of PLN 48.4 thousand gross was paid in cash as a short-term benefit;
- The members of the Management Board were awarded variable remuneration for their performance in 2021, amounting to a total of PLN 1,564.8 thousand. Of the amount, 60% was paid in 2022, and 40% (or PLN 625.9 thousand) was deferred and will be paid out over a period of five years. In 2022, 50% of the remuneration was paid in cash, amounting to a total of PLN 469.4 thousand. The remaining 50% was granted in the form of phantom shares, representing a short-term benefit. These phantom shares will be paid out in March 2023, after the expiration of the retention period. The payout will be based on the arithmetic average of the closing prices set over the first five sessions following the expiration of the retention period (52,601 shares).
- A total of 32 individuals holding managerial positions, excluding members of the Management Board, who were deemed to have a significant impact on the Bank's risk profile and fulfilled the necessary conditions for bonus accrual (with no reservations as to the performance of their assigned duties), were eligible for variable remuneration. A total variable remuneration accrued and paid to those individuals was PLN 1,191.2 thousand.
- A total of 6 individuals holding managerial positions, excluding members of the Management Board, who were identified as having a significant impact on the Bank's risk profile, received a cash award of PLN 51 thousand for the implementation of individual projects in 2021.
- A total of 25 individuals holding managerial positions, excluding members of the Management Board, who were identified as having a significant impact on the Bank's risk profile were recognized for their contribution to the Bank's results.. They were acknowledged for their exemplary attitude reflecting the Bank's values, above-average commitment, and efficiency, effectiveness, and timeliness in carrying out their assigned tasks. Their contributions played a role in enhancing the perception of BOŚ as a specialized bank. Additionally, their efforts contributed to the Group achieving a net profit of over PLN 47 million in 2021, compared with a net loss of PLN 307 million in the previous year. Notably, both the core business areas

of interest income (which increased to PLN 376 million, up 1.4% year-on-year) and commission income (reaching PLN 142 million, marking a 5.4% increase from the previous record level in 2020) demonstrated improvement. As a gesture of recognition, discretionary awards totalling PLN 377.8 thousand were paid to those individuals.

- In accordance with the provisions outlined in Chapter IV, paragraph 14.4 of the Executive Compensation Policy (excluding members of the Management Board), the variable remuneration was not subject to any deferment mechanism, and no portion of the remuneration was paid in the form of shares.

The amount of variable remuneration for 2022 has not yet been determined and awarded.

6.2. Management Stock Option Plan and Employee Share Plan

There was no Employee Share Plan in place in the Bank in 2022 and 2021.

6.3. Remuneration and other payments due to key management staff at BOŚ S.A.

Information on the remuneration for key management staff of BOŚ S.A. and other amounts due from the Bank to the present and former officers and directors is provided in note 51 of the Full-Year Consolidated Financial Statements of the BOŚ Group for the year ended December 31st 2022.

The Bank has no pension or similar liabilities towards its former members of managing and supervisory bodies.

6.4. Severance compensation for members of managing bodies

Contracts concluded with the managers included severance compensation. In this regard, the following provisions were in effect:

- Where the contract with a manager is terminated by the Bank for reasons other than a breach of basic contractual obligations, the manager may receive compensation of up to three times the fixed remuneration, provided that the manager performed the function for at least 12 months prior to such termination; Severance pay amount is set by the Supervisory Board, taking into account the workload, efficiency and performance in the last three years of holding the function as well as the effects of the services performed and the financial results of the Bank and of the business line supervised by the manager concerned.
The above rules were applicable to four members of the Management Board between January 1st 2022 and May 22nd 2022 and then from May 23rd 2022 to December 31st 2022.
- Non-competition compensation (for refraining from direct or indirect involvement with a Bank's competitor) for a manager holding the function for at least three months is provided for in the amount of 50% of the fixed remuneration received directly prior to contract termination, payable for six months.
The above rules were applicable to four members of the Management Board between January 1st 2022 and May 22nd 2022 and then from May 23rd 2022 to December 31st 2022.

6.5. Bank's shares held by members of the Management Board and the Supervisory Board

The Bank reported that as at December 31st 2022 none of the members of the Bank's Management Board and none of the members of the Bank's Supervisory Board held:

- any Bank shares or rights thereto;
- any shares in the Bank's affiliates.

The members of the Management Board held phantom shares that were granted to them as variable compensation for their performance.

Phantom shares	TOTAL	including:		
		Awarded in 2022 for 2018 (to be paid in March 2023)	Awarded in 2022 for 2019 (to be paid in March 2023)	Awarded in 2022 for 2021 (to be paid in March 2023)
Arkadiusz Garbarczyk	19,602	3,645	4,265	11,692
Robert Kasprzak	9,065	-	-	9,065
Jerzy Zań	10,393	-	-	10,393

The table does not account for the phantom shares granted to Wojciech Hann (12,826 shares) and Marzena Koczut (8,625 shares) as variable compensation for the 2021 results, as the two individuals are no longer members of the Bank's Management Board.

VII. NON-FINANCIAL STATEMENT

This document constitutes a mandatory non-financial statement. This is the Bank's fourth non-financial statement, prepared in accordance with selected GRI (Global Reporting Initiative) standards and the Bank's internal indicators. The data provided reflect the situation as at December 31st 2022.

Mission and business model

The Bank's mission is to support green transition in an innovative and effective way. This places the Bank among the global family of green banks, combining effective and profitable operations with support for environmental projects.

Vision: We provide comprehensive financing for green transition by offering unique products, dedicated experts and a variety of financial instruments

The Bank's development plan takes into account the economic consequences of the COVID-19 pandemic, as well as EU and national projects aimed at achieving climate neutrality. Therefore the Bank intends to place even more emphasis on consulting capabilities and expertise in green financial products, as well as comprehensive support for Polish companies and local governments in their green transition efforts. The offer for retail clients also will be focused on financing green investments. By adopting this approach, the Bank aims to differentiate itself in the market, address the increasing demand for sustainable financial products, and actively contribute to the civilisational challenges that lie ahead in the coming decades. Taking this direction is expected to translate into

improved operational efficiency, which should result in sustainable profitability and an improvement across all key indicators.

BOŚ operates as a specialized bank that actively seeks collaboration with other commercial banks and international institutions, including the European Investment Bank and the European Bank for Reconstruction and Development.

The Bank caters to both corporate and retail clients, with a particular focus on developing innovative financial products aimed at promoting and supporting sustainable economic growth. BOŚ provides specialized loans to assist clients in implementing clean energy solutions and acquiring or leasing zero-emission vehicles. The Bank recognizes the transition to a green economy as not only one of the most significant global challenges but also as a major investment opportunity for Poland.

The Bank is strongly committed to contributing towards the Sustainable Development Goals set out in the UN Agenda 2030 and adopted by UN member countries. A responsible business is not a business driven only by profit, but also by care and a sense of responsibility for the environment, society, economy, clients, shareholders, and employees; operating in compliance with the highest standards of corporate governance.

Aligned with the goals outlined in the 2021-2023 Development Strategy, the Bank achieved an ESG rating 6 of 19.9 in December 2021. This rating indicates a low risk of material adverse effects from ESG factors. In 2022, the Bank achieved a notable improvement in its overall ESG Risk rating, reaching a score of 14.2, classified as "Low Risk." This represents a substantial advancement compared to the excellent performance of the previous year. With the impressive December 2022 outcome, BOŚ has advanced into the top 9% of the highest-rated banks globally, out of a pool of over 1,000 surveyed financial institutions. Simultaneously, it has secured a position in the top 8% among the over 15,500 surveyed companies worldwide by Morningstar Sustainalytics.

Execution of the ESG Strategy

In 2022, the Bank led efforts to implement the ESG Strategy, adopted in October 2021. The ESG Strategy takes into account the commitments included in the Bank's Business Strategy, defining activities and setting measurable targets to be completed by 2023. It covers internal and external impacts across three pillars: E (environmental factors), S (social factors) and G (governance factors):

- Green change leader,
- Socially active bank,
- Conscious organization.

In its ESG Strategy, the Bank has committed to:

- Actively engage in financing sustainable investment projects;
- Provide comprehensive support and guidance to clients throughout the transition process by leveraging its unique expertise;
- Implement the top standards in managing our environmental footprint;
- Provide ongoing education in support of sustainable economic growth;
- Be a responsible and committed partner in major community initiatives;
- Create a caring and engaging workplace, with clear employment policies that support diversity;
- Conduct business in a transparent manner, using best ESG practices;
- Work towards a sustainable value chain for suppliers and clients.
- Effectively manage ESG risk.

The objectives of the ESG Strategy are continuously monitored based on specific commitments, indicators, and deadlines. Reports on the implementation of the ESG Strategy are submitted quarterly to the ESG Committee and

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the Bank's Management Board, and additionally to the Environmental Protection Committee and the Supervisory Board on a semi-annual basis.

By December 31st 2022, the Bank successfully accomplished a significant majority of the KPIs outlined for the 2021-2022 period, including the completion of annual activities as planned.

Green change leader

The Bank is actively building a range of sustainable financial products. The 2022 portfolio of offerings comprised various environmentally friendly financial instruments, such as green bonds, ESG bonds, green developer loan, green factoring, green guarantee, letters of credit, and ESG factoring. Furthermore, in collaboration with the State Forests, the Bank planted 200 thousand trees in 2022 within forest areas impacted by natural disasters. The aforementioned initiative was associated with an eco term deposit offer, where the Bank committed to planting one tree for every PLN 20 thousand deposited.

In 2021, the Bank implemented the BOŚ Climate Policy, in line with the ESG Strategy. The policy explicitly states that the Bank will not provide any new financing for thermal coal mining or new coal units. In 2022, considering the geopolitical situation, the Bank revised its Climate Policy to encompass the imperative of maintaining energy security. This updated policy takes into account the necessity of diversifying commodity supply routes managing the risks associated with potential disruptions to regular operations of the Bank's clients or the industry. Furthermore, the Bank emphasizes pursuing an equitable path of transformation that effectively addresses the social risks associated with climate change.

We are also implementing, in line with the schedule prescribed by regulatory bodies, our obligations under Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18th 2020 on establishing a framework to facilitate sustainable investment (Taxonomy).

Socially active bank

Social responsibility and environmental stewardship are integral pillars of BOŚ's identity. The Bank recognizes that responsible business entails making tangible and quantifiable commitments to both society and the environment. This includes adhering to relevant corporate governance standards. As a testament to its dedication to community engagement, on December 29th 2022 the Bank implemented the Declaration for Building Relationships with the Community and Minimizing Negative Social Impact at Bank Ochrony Środowiska S.A.

With regard to 'Socially active bank', BOŚ is engaged in educational initiatives and participates in the market dialogue on sustainable financing. Building on the success of the previous year, BOŚ once again organized the IDEA BUSINESS CLIMATE conference on October 27th 2022. The primary objective of the conference was to initiate a meaningful dialogue on the role of businesses in the context of climate change processes. It aimed to highlight the interconnectedness between climate and business activities.

Since joining in November 2021, the Bank has been an active participant in the initiatives of the United Nations Global Compact (UNGC). The UNGC is an organization dedicated to rallying sustainable companies and stakeholders worldwide, aiming to drive positive action for the well-being of people and the environment.

In 2022, the Bank signed a declaration to join the Responsible Business Forum. Through this partnership, the Bank gained access to a platform offering various additional resources. These include training programs, publications, research materials, and resources made available through the Bank's collaboration with CSR Europe, the World Business Council for Sustainable Development, the Global Reporting Initiative, and the EU-Diversity Charter.

The bank is also committed to caring for employees and creating an engaging workplace, with clear employment policies that support diversity. Throughout 2022, the Bank remained actively engaged in various initiatives. These efforts included further developing employee volunteerism programs with the assistance of the BOŚ Foundation, implementing an employer branding strategy, organizing well-being initiatives, and conducting workshops aimed at enhancing knowledge and awareness of diversity issues. An ESG education program for all employees and an in-house knowledge sharing program were implemented in 2022.

Conscious organisation

As a Conscious Organisation, the Bank pays particular attention to gradual increasing of disclosure transparency, building a sustainable supply chain and integrating ESG risks into the Bank's risk management policies and procedures.

On September 1st 2022, the Bank released an ESG Report that provides a comprehensive overview of its commitment to environmental, pro-social, and corporate governance initiatives. The report also highlights the Bank's accomplishments in implementing its 2021 ESG Strategy throughout the year.

Documents and regulations on ESG issues are available on a dedicated web page on the Bank's website at <https://www.bosbank.pl/ESG/esg/strategia-i-raport-esg>.

The Bank's commitment to a sustainable supply chain is reflected in its "Standards of Conduct for Suppliers of Bank Ochrony Środowiska S.A." These standards outline the Bank's expectations for suppliers, including the development of supplier statements and the incorporation of ESG contractual clauses. In a special declaration, every new supplier of BOŚ S.A. undertakes to adhere to and cause its subcontractors to adhere to the ESG standards.

In view of the change dynamics, the Bank offers the best possible risk management solutions. Starting from 2021, the Bank has integrated the evaluation of potential borrowers' ESG risks into its credit risk assessment process. Every decision on providing financing to a business or local government institution is preceded by an assessment of the prospective client's engagement in environmental protection (E), care for social issues (S), and compliance with corporate governance standards (G).

Taxonomy

Description and indicators

Implementation of regulatory requirements for green asset taxonomy is particularly important for BOŚ S.A., which has been promoting environmentally friendly investments and supported sustainable development since its inception. In line with clients' needs, the Bank continues to expand its range of products and financial instruments dedicated to green investments. It consistently develops an environmentally sound portfolio to support green transition. The Bank ensures that projects it finances support environmental challenges. It provides clients with expert support of environmental engineers to help them deliver positive results for the environment.

Pro-environmental activities financed by the Bank include: reduction of consumption of natural resources, improvement of energy efficiency, increased use of renewable energy sources, sustainable construction – these are all taxonomy-eligible areas of activity.

The Bank is actively engaged in implementing the requirements set forth in Regulation (EU) 2020/852 of the European Parliament and the Council of June 18th 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 and related legal acts. Taxonomy regulations are still undergoing refinement at the European Commission level, and the availability of data concerning the Bank's clients and transactions, specifically regarding compliance with the taxonomy criteria, may currently be limited. In line with the current situation and the refinement of taxonomy regulations, the Bank has not yet achieved full alignment of its products and internal classification of pro-environmental assets with the taxonomy in 2022. However, the Bank is actively working on implementing mandatory disclosures related to the taxonomy, in accordance with the regulatory schedule.

GAR indicator

In this year's simplified reporting, the Green Asset Ratio (GAR) is intended to showcase the proportion of the Bank's total assets that are dedicated to financing activities that align with the taxonomy and are eligible under its criteria.

In the GAR disclosures presented, the Bank has identified exposures in its portfolio to non-financial companies that are obligated to fulfill non-financial reporting requirements. Specifically, these are entities listed on the Warsaw Stock Exchange (WSE) that satisfy the following conditions:

- 1) 500 people – average annual full-time employment, and
- 2) PLN 85 million – total assets at the end of the financial year, or PLN 170 million in net revenue earned in the financial year.

Director's Report on the operations of the BOŚ Group in 2022

An important challenge affecting the information on indicators presented in the report is the obligation to publish them, on the same date, for financial institutions and non-financial undertakings. In the calculations for the Green Asset Ratio (GAR), the Bank incorporated data from clients' non-financial statements for the most recent available year, which in this case is 2021.

In the case of working capital facilities, the share of eligible funds for the system was determined on the basis of information from the non-financial reports of Clients, based on the turnover rate eligible for taxonomy (based on the table entitled 'Percentage of turnover on products or services related to systematic economic activities'). All investment loans deemed taxonomy-eligible were included in the GAR indicator.

In cases where the client's taxonomy disclosures were not available or the purpose of the loan was unknown, the assets were not designated as taxonomy-eligible. This was due to the absence of confirmed data necessary for accurate verification and qualification.

Pursuant to Article 8(1) of Regulation (EU) 2020/852 of the European Parliament and the Council, an obligation has been imposed on companies subject to Article 19a or 29a of Directive 2013/34/EU of the European Parliament and the Council to disclose how and to what extent their activities are related to environmentally sustainable business activities. In accordance with Commission Delegated Regulation (EU) 2021/2178, during the transitional period from January 1st 2022 to December 31st 2023, the Bank will disclose the information indicated in Article 10(3) of that Delegated Regulation.

Percentage share of exposures to taxonomy-eligible economic activities in total assets (GAR)	0.99%	Exposures to non-financial undertakings subject to non-financial reporting obligation
Percentage share of exposures to taxonomy-non-eligible economic activities in total assets	0.76%	Exposures to non-financial undertakings subject to non-financial reporting obligation
Percentage share of exposures to non-financial undertakings that are not required to publish non-financial information in total assets	34.60%	Exposures to non-financial undertakings that are not subject to non-financial reporting obligation
Percentage share of exposures to central governments, central banks and supranational issuers in total assets	38.90%	Exposures to government institutions and supranational issuers (including exposure in the trading book)
Percentage share of derivatives in total assets	1.03%	Derivatives presented in the trading book
Percentage of trading book in total assets	1.20%	Trading book (including derivatives)
Percentage share of interbank demand loans in total assets	0.98%	Interbank demand loans
Total assets	PLN 22 billion	Total assets presented in accordance with the prudential consolidation of the Group
Voluntary disclosure		
Percentage share of exposures to taxonomy-eligible economic activities in total assets (GAR), including mortgage loans	10.30%	Applies to exposures to non-financial corporations subject to non-financial reporting and mortgage loans (for residential purposes and secured on residential property) to households (individuals and housing communities)

These disclosures have been prepared to the best of the Bank's knowledge and represent fulfilment of the taxonomy reporting requirements for credit institutions during the transition period. In addition, the Bank provided the percentage of total assets represented by exposures to taxonomy-eligible economic activities, including mortgages, as part of the expanded GAR.

The ratios have been calculated on a prudentially consolidated basis in accordance with Regulation (EU) 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (as amended) and are consistent with the Bank's FINREP reporting. As at December 31st 2022, for prudential consolidation purposes the Group of Bank Ochrony Środowiska S.A. consisted of: Bank Ochrony Środowiska S.A. (the parent), and Dom Maklerski BOŚ S.A. and BOŚ Leasing – EKO Profit S.A. (direct subsidiaries of the Bank).

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 behaviour of employees.

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

- Code of Ethics of BOŚ S.A.,
- Code of Banking Ethics (Rules of Good Banking Practice),
- Rules for Accepting and Granting Benefits and Gifts at BOŚ S.A.,
- Policy to counteract and manage conflicts of interests at BOŚ S.A.,
- Policy to counteract and manage conflicts of interests at BOŚ S.A.,
- The procedure for anonymous reporting of violations of law and ethical procedures and standards followed by BOŚ S.A.,
- Rules for Accepting and Granting Incentives at BOŚ S.A.,
- Work rules at BOŚ S.A.

Dom Maklerski BOŚ applies the ethical principles and standards set out in the following documents:

- 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,
- Violations reporting policy at DM BOŚ,
- Regulations for management of conflicts of interest at DM BOŚ,
- Client service standards of DM BOŚ,
- Policy for identifying and disclosing monetary and non-monetary benefits received and provided, as well as the guidelines for providing information to clients.

Ethical values and standards are the basis of the Bank's everyday activity. All of the listed documents and internal regulations are available in the Polish language on the Intranet. Familiarity with the Code of Ethics is a prerequisite for new employees during the onboarding process. As part of their induction, they are required to review the Code of Ethics and acknowledge their understanding by signing a declaration.

At Dom Maklerski BOŚ, the preliminary employee training covers the internal rules and regulations, including those pertaining to management of conflicts of interest, proprietary trading and anonymous reporting of violations.

At the Bank, interpretations of ethical concerns are provided by the Compliance Department, which – in cooperation with other units – proposes and implements amendments to the Code of Ethics. It also conducts periodic internal campaigns to promote desired behaviours, including awareness of the importance of risk in the Bank's business, and to foster a sense of shared responsibility among employees for compliance risks. In matters related to ethics and compliance, every employee of the Bank may contact the Director and employees of the Compliance Department (information is available on the Intranet).

The Bank provides a series of mandatory training courses for newly hired employees and recurring courses for existing employees covering, among others, prevention of money laundering and financing of terrorism, personal data protection, cyber security, sale of insurance products, mortgage lending, as well as basic and extended MiFID training.

The Bank is expanding its mandatory training programme and additional training is planned for 2023: in anti-corruption and in the internal control system.

A similar function at the Brokerage House is performed by the Compliance Department. Ethical standards and behaviours are promoted at the Brokerage House to strengthen the compliance culture, in particular through employee training. At DM BOŚ, the organisational units are responsible for, among other things: ensuring compliance of the operations of DM BOŚ with the generally applicable provisions of law, internal regulations and

the standards of conduct adopted by the Brokerage House, including ethical standards. Any employee of DM BOŚ, through a dedicated email account, can reach out to the Compliance Department for advice.

Instances of violations at the Bank are handled in accordance with the guidelines outlined in the Procedure for Anonymous Reporting of Legal Violations, as well as the established procedures and ethical standards at BOŚ S.A. Every such notification is reported 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 guarantees full anonymity to anyone reporting violations.

The Brokerage House also has in place a "Policy for reporting violations at Dom Maklerski BOŚ", whose purpose is, among other things, to exercise oversight over compliance by DM BOŚ with the law, in particular to enable reporting of actual or potential violations of anti-money laundering and counter-terrorist financing regulations in force at the Brokerage House, as well as with ethical standards. The Policy applies to all employees of the Brokerage House, regardless of their position and the form of their employment relationship, and to persons acting on behalf of the Brokerage House. If a notification concerns a Member of the Management Board, then members of the Management Board as well as the Chairperson and Deputy Chairperson of the Supervisory Board have access to the information contained in the notification. The Management Board of Dom Maklerski BOŚ guarantees anonymity of the person reporting an infringement and the person alleged to have committed the infringement, including ensuring that no repressive or discriminatory actions or other actions constituting unfair treatment of an employee will be taken against the reporting person.

Anti-corruption

The Bank upholds the highest standards of integrity, honesty, and fairness in all its internal and external endeavours. In line with the Code of Ethics, the Bank pursues a policy under which members of the bank's governing bodies, employees or representatives may not, whether directly or indirectly, give, offer, solicit, promise, approve, demand or accept financial or any other benefits in connection with their service for the bank. To provide our employees with a clear guidance on anti-corruption, we have put in place the Rules for Accepting and Granting Benefits and Gifts at BOŚ S.A.

To raise our staff's awareness of ethics and anti-corruption, we are developing a dedicated programme designed to provide comprehensive training for all of the bank's employees.

Whenever the anti-corruption policy is amended, all of the Bank's employees are required to read it and make appropriate representations.

Anti-corruption and anti-bribery processes at the bank are the responsibility of the Head of Compliance.

Likewise, Dom Maklerski BOŚ S.A. also has in place rules regarding the acceptance of benefits or gifts. These matters are specifically addressed in the Rules of Conflict of Interest Management at Dom Maklerski BOŚ S.A. DM BOŚ S.A. also maintains and follows the Policy for identifying and disclosing monetary and non-monetary benefits received and provided, as well as the guidelines for providing information to clients.

In 2022, no cases of corruption were identified at the Bank and DM BOŚ S.A.

Compliance policy

The Bank employs a comprehensive approach to ensure compliance with legal requirements, internal regulations, market standards, accepted values, and the internal control system in all its activities. The formal framework and procedures implemented are not only designed to fulfill regulatory obligations, including compliance with recommendations from the Polish Financial Supervision Authority (PFSA), but more importantly, they aim to have a positive impact on the organization as a whole. Through these measures, the Bank maintains confidence that its operations align with the highest standards while effectively mitigating key risks such as 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 Supervisory Board is responsible for approving the Compliance policy and conducting annual assessments of the effectiveness of compliance risk management. Additionally, it reviews the adequacy and effectiveness of the internal control system at least once a year.

DM BOŚ also has in place a comprehensive internal control system. A system for supervising compliance of operations with the law has also been implemented at DM BOŚ, serving to disclose and prevent breaches of obligations arising from the law, including in particular those regulating brokerage activities, and within this system the key role is played by an internal unit of DM BOŚ performing the function of compliance with the law in accordance with the applicable legal regulations.

Activity of the Bank and Dom Maklerski BOŚ is subject to supervision by the Polish Financial Supervision Authority.

ESG risk management

Risk management is a comprehensive process that involves all levels of the organization, starting from the Supervisory Board (including its Risk Committee) and the Management Board, extending to committees and specialized units responsible for identifying, measuring, monitoring, controlling, and mitigating risks. This process also extends to the various business units within the organization.

The Bank acknowledges the significance of ESG risks and recognizes the challenges associated with managing these risks, given their characteristics such as intangibility and uncertainty regarding their timing and impact. Consequently, the Bank has incorporated ESG risks into its strategic risk management framework and regulations.

Regarding capital adequacy management, the Bank has established a specific limit on ESG risks that considers their intangible nature and incorporates an assessment of materiality. This measure aims to effectively mitigate and control ESG risks within the Bank's overall risk management framework. Furthermore, the Bank has initiated efforts to develop comprehensive regulations specifically tailored for the management of ESG risks.

As part of the ICAAP process, the Bank identifies ESG risks. Their materiality is verified quarterly. The Bank deems ESG risks as material when the assessment indicates a high potential impact from ESG risk factors. Based on the 2022 materiality review, ESG risks under the ICAAP process were not deemed to be material.

Within its credit risk management regulations, the Bank has established its risk appetite for ESG risks by implementing a specific limit that applies to these risks. The limit applies to the proportion of transactions in the portfolio assessed for ESG risks in a specific quarter that have at least a significant level of inadequately mitigated risk.

The Bank utilizes rating models to assess and monitor clients, which helps determine their creditworthiness. This approach ensures fair and equitable access to financing. The assessment of creditworthiness is conducted by calculating the probability of defaulting on a loan obligation, taking into account all available information. This process adheres to the standards outlined in the General Data Protection Regulation (GDPR) and aligns with the Bank's commitment to social responsibility and its mission. Clients are classified into the appropriate rating based on the estimated probability of default.

In the process of evaluating borrowers' credit risk, the Bank considers ESG risks. The final lending decision is influenced by an assessment of the risks. If such risks are found to exist at unacceptable levels, we may refuse to provide finance even though a client has been assessed as creditworthy based on financial data.

The Bank helps advance a sustainable economy by integrating ESG assessments, covering all the three aspects (environmental, social and governance), into its lending decisions. In assessing ESG risks, the Bank evaluates a set of criteria relating to the implementation of an environmental strategy and policy, adherence to the standards of environmental responsibility and concern for the environment. Environmental performance refers especially to expenditures incurred on its protection, pollution control, carbon emission levels, energy consumption, and the use of energy-efficient technologies in operations. In its lending activities, the Bank is actively taking measures to contribute to the global efforts aimed at reducing the impact of climate change. When evaluating a company's social performance, the internal sphere is usually considered, i.e. the quality of employment, including workforce diversity in terms of gender and origin, and employee training opportunities, as well as the public sphere, i.e. client satisfaction, relations with the local community, and relations with market stakeholders, such as suppliers, clients and trading partners. Important considerations include the working conditions, compliance with employee rights as well as health and safety performance. The quality assurance policy in place should apply to both management procedures and product quality. A company's disclosure policy and transparency are also evaluated; As part of the management and corporate governance criteria, the Bank assesses various factors related to the company's

management board and its governance practices. These factors include evaluating the structure of the management board, ensuring the protection of shareholder rights, fulfilling disclosure obligations to all shareholders, maintaining independence in decision-making, assessing management skills, establishing appropriate remuneration rules, and addressing the incidence of corruption.

Complaint management

The Bank records all received complaints/complaints in one application. The complaint and grievance handling process is centralised, which ensures the right quality of complaint management. Based on the collected data, reports are developed to identify the most common reasons for complaints and take corrective action. The reports are reviewed e.g. by the Operational Risk Committee, and forwarded to Management Board members for information. Their findings and summaries are used in other reports concerning compliance and operational risks, or in business reports.

If a complaint is not resolved to the satisfaction of clients, the Bank informs them about alternative dispute resolution mechanisms that are available. This includes referring the matter to the Arbitration Court of the Polish Financial Supervision Authority, the Banking Arbitrator, or the Financial Ombudsman. These institutions provide out-of-court resolutions for disputes.

The complaint acceptance and handling process is described on the bank's website: https://www.bosbank.pl/__data/assets/pdf_file/0017/20267/Zasady-przyjmowania-oraz-rozpatrywania-skarg-i-reklamacji-w-BOs-S.A..pdf

Number of complaints accepted in 2022 by category/product.

Categories/products	Number of complaints
LOANS	2,932
Checking accounts	1,072
CARDS	695
DEPOSITS	564
SERVICE QUALITY	348
ELECTRONIC CHANNELS	329
ADVANCES	266
SAVINGS ACCOUNTS	194
CURRENT ACCOUNTS	157
UNAUTHORIZED PAYMENT TRANSACTIONS_PSD II	152
PUBLIC OFFICE	66
OTHER ACCOUNTS	66
MULTI-THREAD COMPLAINT	37
OTHER	26
DM BOŚ _BANK AIF	10
INSURANCE BANK INTERMEDIARY	2
SAFE DEPOSIT BOXES	1
TOTAL	6,917

Client security and cybersecurity

The primary document governing our Security System is the Security Policy of Bank Ochrony Środowiska, which ensures an adequate level of security at the bank, including:

- Information security;
- ICT environment security;

- Security of the bank's clients, personnel and property;
- Crisis management ensuring business continuity;
- Identifying and preventing attempts to use the bank for illegal activities or circumvention of law;
- Security of internal processes carried out at the bank;
- Building secure relationships with the bank's clients and service providers.

An important part of work of the Cyber Security Department is to educate clients about cyber security. Security messages are regularly published and updated on the Bank's website. In urgent cases, such as phishing campaigns, the BOŚ website displays alerts with warnings. The Bank informs clients about potential threats through various channels, including messages within electronic banking platforms such as mobile banking. In exceptional cases, when there is a need for immediate and widespread communication, the Bank may also implement an information campaign using SMS messages.

The website <https://www.bosbank.pl/wazne-informacje/bezpieczenstwo> provides educational materials in a user-friendly video format, along with essential safety rules. Clients can also report cybersecurity incidents directly to the Cybersecurity Department through a dedicated form available at: https://wnioski.bosbank.pl/ords/f?p=FORMULARZE_WWW:INCYDENT_BEZPIECZENSTWA.

Personal data security

In processing the personal data of clients, employees and other individuals having any kind of relationships with the bank, BOŚ S.A. relies on technical and organisational measures necessary to ensure the security of such data. As personal data is considered to be one of our crucial resources, its security is treated with utmost concern. Continuous improvement is undertaken by the Bank to enhance the technical and organizational measures employed in securing the processing of personal data. These measures primarily focus on safeguarding data against unauthorized access or loss. In compliance with GDPR, which has been in effect since May 25th 2018, personal data is protected through systematic measures. These measures include the updating of relevant processes, procedures, and policies, necessary modifications to the management of data flow and storage, appropriate communication, and the incorporation of GDPR requirements into projects and system management methods. The impact of banking products and services on clients' privacy is assessed at the conceptual design stage. Opinions on personal data protection are sought for the Bank's internal regulations, as well as for contracts and documents addressed to clients. The protection of personal data is also an area covered by the bank's audit activities, leading to measures aimed at eliminating any future irregularities. The Bank's security incident response procedure requires employees to promptly report any personal data breaches to the Data Protection Officer.

Internal data security regulations

Data protection standards adopted by BOŚ are defined by a number of internal regulations. Since 2018, all processes related to data security have been detailed in the document Security Rules for Protected Information at Bank Ochrony Środowiska. The Bank operates in compliance with applicable laws and regulations concerning the protection of personal data, notably GDPR, and specifically adheres to the "Personal Data Protection Policy at BOŚ S.A." in handling personal data. Additional regulations, such as the Rules for Entrusting and Sharing Personal Data by BOŚ S.A., have been developed by the Bank. These regulations outline detailed procedures for the entrusting and sharing of personal data with other entities, including clients, employees, or other individuals, to the extent that the Bank processes such data as a data controller. Another key document is the Personal Data Retention Policy of BOŚ S.A., which defines the rules for processing data after the original purposes of its use have been achieved.

With these regulations, the Bank has implemented all the leading data protection standards. By way of the regulations BOŚ has committed to obtaining user data through lawful and transparent means with the express consent of data subjects, and has obliged users to collect and process data only for specific purposes. Users are required to make a statement in which they undertake to process data only for specific purposes and acknowledge information on the terms and conditions of data processing. In its internal regulations the bank has also laid down conditions for the collection, use, disclosure and storage of user data, including data transferred to third parties. Third parties to whom personal data was disclosed are obligated to comply with the relevant BOŚ policies. The

Bank also applies a 'Confidentiality Undertaking for Employees of Third Parties Providing Services to the Bank' and a model non-disclosure agreement, which includes provisions obligating third parties to maintain confidentiality.

Any changes are reviewed on an ongoing basis and incorporated into the bank's internal procedures and regulations. As a member of the Polish Bank Association, the Bank is working with other banks to develop a common code of conduct and relevant data protection solutions.

Data Protection Officer

The role of overseeing the proper processing of personal data at the Bank is assigned to the Data Protection Officer. Additionally, a Data Protection Officer Team has been established to provide support to the Bank's employees in fulfilling their data processing responsibilities.

Since the implementation of GDPR three years ago, there has been a steady and increasing interest in the protection of personal data among clients. Additionally, there has been a growing awareness of the importance of safeguarding information. The Data Protection Officer's inbox is regularly receiving a stream of letters and requests from clients who are seeking to exercise their rights under GDPR. The Bank responds to such requests with utmost diligence, within the statutory deadline. The email address of the Data Protection Officer is available on the Bank's website. We receive hundreds of client requests regarding their rights under GDPR, as well as other enquiries concerning data protection. As part of supervision over proper processing of personal data, the Data Protection Officer performs inspections based on which privacy risks are assessed, evaluates the technologies and practices used by BOŚ and makes relevant recommendations. In addition, the bank has in place a Data Protection Impact Assessment Procedure and a Data Protection by Design Procedure, used as a basis for privacy risk assessments.

Data breach complaints in 2022:

- Number of personal data breach complaints in 2022: 70, including 8 valid complaints
- Number of completed proceedings before the President of the Personal Data Protection Office: 2 (the proceedings were discontinued)
- Total number of personal data breaches: 16, including 3 breaches reportable to the President of the Personal Data Protection Office

By the end of 2022, the Bank had not received an administrative decision from the Data Protection Authority indicating any violations of data processing under the General Data Protection Regulation (GDPR).

Employee education and raising data security awareness

Regular communications on data security are provided to employees in order to enhance their awareness and knowledge on the subject. They participate in mandatory data protection training held as e-learning or in-person courses.

Clients' data protection rights

Personal data is processed by the Bank for the purposes of contract execution, performance of various obligations imposed on the Bank, operation of bank accounts, safe and secure execution of orders and instructions, communication of new services and products, etc. As the data controller, the Bank uses its best efforts to ensure full compliance with Regulation 2016/679 on the protection of personal data (GDPR) and thus protect personal data.

Individuals are provided with the opportunity to protect and exercise their rights and freedoms as defined in the RODO. Any person whose data is processed has the right to apply to the Bank to exercise their right to stop data processing. Clients are provided with a wide array of available forms of communication, ensuring their convenience when submitting applications to the Bank. These include:

- In person – at any organisational unit;
- By mail – through a postal or courier service operator;
- By phone – at the Contact Centre;
- By electronic means – via online banking.

Cybersecurity

With the security of its clients in mind, in response to emerging cybersecurity threats, BOŚ implements measures to protect the confidentiality, integrity, availability and authenticity of information in accordance with the National Cybersecurity System Act of July 5th 2018, as amended, which implements the NIS Directive.

The Security Policy at BOŚ covers all areas of security. The Policy is reviewed at least once a year, with the review confirmed by a report.

Information security management is based on the ISO 27001 standard.

The bank's internal regulations, checklists, rules and procedures were prepared on the basis of national documents (e.g. National Cybersecurity Standards), PFSA recommendations and international standards and best practices (CISA, ENISA, SANS, etc.). The level of security is periodically confirmed by tests and audits performed by internal and external specialists with relevant qualifications. BOŚ has information security and physical security policies, procedures, standards and rules in place to ensure an adequate level of security for data, clients and employees. These regulations are periodically reviewed and updated to reflect changing regulatory recommendations, laws and external risk factors.

The Cybersecurity Department staff actively participate in the exchange of information on current threats through membership of information sharing forums operating within the Polish Bank Association. Also, the Bank uses systems for sharing threat information available within the banking sector (including the Malware Information Sharing Project or MISP).

We provide more detailed information on the Bank's cybersecurity programme to our trading partners upon request.

Individual organisational units fulfil their daily monitoring, security and business continuity responsibilities. A dedicated DIT-HOUSTON unit operating within the Information Technology and Telecommunications Department monitors ICT systems for business continuity reliability on a 24/7 basis. Also, a separate Security Operations Centre operates within the Cybersecurity Department on a 24/7 basis, monitoring the bank's ICT environment security.

The Cybersecurity Department continuously improves its incident response capabilities in order to comply with international best practices in cybersecurity. In response to emerging threats, the Bank is updating, modernising and expanding its systems.

Cybersecurity education is an ongoing process at BOŚ with employees undergoing basic mandatory cybersecurity training. Further education is supported by mandatory e-learning training courses delivered at least once a year. Regular phishing resistance exercises are a fixed component of cybersecurity education.

The beginning of 2022 was marked by a war across the eastern border, resulting in an increase in attempted attacks on the Bank's infrastructure. While the number of attacks on clients initially decreased in the middle of the year, it returned to previous levels in the second half. Criminals adapt their tactics to the current market situation by creating fake websites and advertisements. The Cybersecurity Department remains vigilant and conducts ongoing monitoring activities. Whenever false sites or advertisements are identified, they are promptly reported to relevant institutions for blocking.

Throughout the duration of the CHARLIE-CRP alert, the Cybersecurity Department operated with heightened alertness. No major security incidents were reported by BOŚ CSIRT in 2022.

EMPLOYEES

The HR policy, its processes and regulatory framework as well as the organisational culture contribute to enhancing the Bank's core values and standards, including active preventing of any forms of workplace discrimination and bullying, ensuring equality of opportunities for all, and promoting diversity.

People are the most important resource of Bank Ochrony Środowiska. The concern for attracting and retaining the best employees is observable at all stages of HR management - from headhunting through to providing development opportunities to employees.

The Bank continuously monitors the employment indicators, including staff turnover. The management information system provides data on the needs, opportunities and challenges involved in HR management. The Bank priorities in this respect include enhancing employee performance, loyalty and satisfaction.

DM BOŚ also deploys a comprehensive employment policy. Its key objectives are consistent with those of BOŚ Bank and include:

- providing competent staff having the required level of qualifications, job skills and professional experience;
- maintaining employment at an optimum level and continuously monitoring of staffing needs in individual organisational units;
- efficient and prompt filling of vacancies as they emerge;
- developing and enhancing qualifications of employees.

Employment in the BOŚ Group by type of contract

Employment as at December 31st 2022	WOMEN	MEN	TOTAL
Employees on a probationary period	15	14	29
Employees with fixed-term contracts	191	130	321
Employees with permanent contracts	677	454	1,131
Employees with temporary replacement contracts	11	1	12
Employees with management service contracts	1	5	6
Self-employed persons engaged by the Group under employee terms and conditions	10	15	25
Employees with internship contracts	0	0	0
TOTAL	905	619	1,524
TOTAL EMPLOYEES WITH CONTRACTS OF EMPLOYMENT (including management service contracts)	895	604	1,499

Employment at the BOŚ Group by type of permanent contract and by gender

Employees with permanent employment contract as at December 31st 2022 working:	WOMEN	MEN	TOTAL
Full-time	669	450	1,119
Part-time	23	13	36
TOTAL	692	463	1,155

Total number of BOŚ Group employees working under permanent employment contract, by gender and region

Persons employed as at December 31st 2022, by province	WOMEN	MEN	TOTAL
Dolnośląskie	18	15	33
Kujawsko-pomorskie	29	4	33
Lubelskie	26	11	37
Lubuskie	8	2	10
Łódzkie	12	10	22
Małopolskie	28	14	42
Mazowieckie	612	453	1,065
Opolskie	7	2	9
Podkarpackie	17	10	27
Podlaskie	14	7	21
Pomorskie	25	11	36
Śląskie	36	36	72
Świętokrzyskie	8	1	9
Warmińsko-mazurskie	16	7	23
Wielkopolskie	17	14	31
Zachodniopomorskie	22	7	29
TOTAL	895	604	1,499

Total number and percentage of new employees at the BOŚ Group, by gender and age

Number of new employees in 2022, by age	WOMEN			MEN			TOTAL
AGE:	≤ 29	30-50	51 ≤	≤ 29	30-50	51 ≤	
Number of new employees	42	146	30	28	98	36	380

Total number and percentage of terminated employment contracts at the BOŚ Group by age, gender and region

Number of employee departures in 2022, by age	WOMEN			MEN			TOTAL
AGE:	≤ 29	30-50	51 ≤	≤ 29	30-50	51 ≤	
Number employee departures	21	145	41	16	68	32	323

Diversity in practice

The Bank operates the policy of zero tolerance for any discrimination (whether direct or indirect) in employment.

The Bank's commitment to diversity means that no one is discriminated against, whether directly or indirectly, because of their gender, age, disability, medical condition, race, nationality, ethnicity, religion, denomination, irreligion, political views, union membership, sexual orientation, gender identity, family status, lifestyle, basis of employment, and other grounds that may give rise to discriminatory practices.

The following regulations are in place in the Bank to support diversity in employment:

- *Diversity Policy applicable to all Bank employees, regardless of the position held, which aims to:*
 1. Support the Bank in pursuing its strategic objectives through the implementation of the diversity principle,
 2. promote recruitment of diverse talent for the Bank;
 3. Create a friendly working environment where every employee feels respected and valued;
- Diversity Policy applicable to members of the BOŚ S.A. Management Board, which aims to:
 1. Promote diversity in appointing members of the Bank's Management Board,
 2. Support the pursuit of the Bank's strategic objectives by ensuring diversity among the members of the Management Board,
 3. Ensure that members of the Bank's Management Board represent a broad spectrum of characteristics and competencies, such as diverse skills, educational background, professional experience, knowledge, gender, and age.

The Bank acknowledges its responsibility for respecting and protecting fundamental human rights and undertakes to respect the same in accordance with the United Nations Universal Declaration of Human Rights as well as other internationally recognised norms and standards.

The Bank's *Human Rights Protection Policy* describes how human rights are supported and respected in the Bank through:

- Non-discrimination,
- Freedom of association,
- Opposition to forced labour,
- Appropriate working and pay conditions,
- Occupational health and safety,
- Integrity,
- Respect for privacy,
- Whistleblowing procedures.

The Bank is committed to fostering a welcoming work environment and promoting an organizational culture based on mutual respect, with zero tolerance for discrimination or bullying. To achieve this, the Bank has implemented the "We have diversity in nature" program, which includes educational activities for all employees. In 2022, a panel discussion and a webinar on diversity were conducted, featuring representatives from the Management Board, management team, and an external expert. E-learning modules on diversity were also provided to employees, while managers received a guide on fostering inclusivity within their teams. Webinars were organized to introduce employees to various aspects of diversity.

Diversity policy in practice:

- The Bank is committed to achieving a gender balance in the composition of employees within the BOŚ Group, with the current ratio being 60% women to 40% men.
- Within the management staff, the ratio is even closer to the target, with 49% women and 51% men.
- The top management staff consists of individuals with diverse educational backgrounds, both from Poland and abroad.
- Among the top management staff, 4.5% (5 individuals) have been with the Bank for more than 15 years, with an average tenure of 8.3 years for women and 2.3 years for men.
- The top management team includes individuals with diverse experience in Polish and European financial and non-financial institutions.
- The Bank also promotes inclusivity by employing foreigners, retirees, individuals with acquired pension rights, and people with disabilities.
- The percentage of employees with disabilities within the Bank is 2.1%.

Composition of staff at the BOŚ Group by employment category, gender and age

	MANAGEMENT BOARD AND OFFICERS			SENIOR AND JUNIOR MANAGERS			OTHER EMPLOYEES		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
AGE ≤ 29	0	0	0	1	1	2	68	54	122
AGE 30-50	16	45	61	64	45	109	479	293	772
AGE ≥ 51	14	36	50	45	16	61	208	114	322
TOTAL	30	81	111	110	62	172	755	461	1,216

Percentage structure of staff at the BOŚ Group by employment category, gender and age

	MANAGEMENT BOARD AND OFFICERS			SENIOR AND JUNIOR MANAGERS			OTHER EMPLOYEES		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
AGE ≤ 29	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	4.5%	3.6%	8.1%
AGE 30-50	1.1%	3.0%	4.1%	4.3%	3.0%	7.3%	32.0%	19.5%	51.5%
AGE ≥ 51	0.9%	2.4%	3.3%	3.0%	1.1%	4.1%	13.9%	7.6%	21.5%
TOTAL	2.0%	5.4%	7.4%	7.3%	4.1%	11.5%	50.4%	30.8%	81.1%

Employment conditions

BOŚ Bank provides equal opportunities in employment, remuneration and development. All Bank's employees are responsible for creating a friendly and supporting environment at work, free from any form of discrimination, bullying or harassment. All employees of the Bank and DM BOŚ have equal rights as regards commencement and termination of their employment, terms and conditions of employment, promotion and access to development programmes. DM BOŚ continuously monitors coherence of the remuneration system, taking into account the specific nature of the finance sector:

At BOŚ:

- Diversity Policy and Human Rights Protection Policy are in effect. In addition, the Code of Ethics, the Work Rules and the Anti-Bullying Policy contain provisions e.g. on preventing any form of discrimination (on grounds of gender, age, disability, race, religion, nationality, political views, union membership, ethnicity, denomination, sexual orientation, or resulting from the form or period of employment);
- Key HR policies, such as the periodic performance appraisal process, employee compensation regulations, and employee training and development principles, were updated to align with the principles of respecting diversity and protecting human rights. These updates ensure that all employees have equal opportunities in terms of hiring, compensation, and professional growth and development;
- The Bank's recruitment procedures comply with the standards set out in the EU Equal Treatment Directive; Recruitment is based on objective criteria and pre-defined rules and principles;
- Since 2017, the Bank has embarked on a programme 'The Bank open to the disabled persons', seeking to offer jobs (telework) to persons with officially declared disabilities;

Moreover, Bank Ochrony Środowiska S.A. respects the principles of diversity and human rights through:

- 1) Non-discrimination – the Bank opposes all forms of direct and indirect discrimination based on: gender, age, disability, medical condition, race, nationality, ethnicity, religion, denomination, irreligion, political views, union membership, sexual orientation, gender identity, family status, lifestyle, form, scope and basis of employment, other forms of cooperation and other circumstances which may give rise to discriminatory practices;
- 2) Freedom of association – the Bank respects the right of employees to freely associate in trade unions and to collective bargaining;

- 3) Opposition to forced labour – the Bank opposes all forms of worker exploitation, including child labour, forced or compulsory labour and other forms of coercion, both mental and physical, against employees, both hired by the Bank and across its supply chain, and strongly condemns all forms of human trafficking and exploitation.
- 4) Appropriate working and pay conditions – the Bank is committed to creating a friendly working environment based on the mission and values contained in the Bank's Strategy; the Bank cares about the work-life balance of employees and provides fair remuneration and working conditions. Detailed provisions concerning working conditions and remuneration are contained in the Work Rules, Remuneration Rules and Rules on Variable Remuneration Systems;
- 5) Occupational health and safety – health and safety of employees is a major concern for the Bank, hence it actively engages in supporting safe and healthy working environment. The Bank has in place standards for prevention, assessment and management of risks involved in its operations. It also promotes and encourages corporate culture focused on health and safety;
- 6) Integrity – the Bank perceives any form of corruption as a violation of human rights and, therefore, unacceptable. To that effect the Bank has implemented, among other things, The Code of Ethics and the Money Laundering and Terrorism Financing Prevention Methodology, which form a corporate reference framework addressing corruption, specifying the rules and principles for preventing or mitigating the risk of corruption;
- 7) Respect for privacy – the Bank is aware of the importance of ensuring adequate security standards for personal data processing. We respect the privacy rights of all our employees and stakeholders and undertake to use the processed data and information in a lawful manner;
- 8) Whistleblower protection – BOŚ S.A. has implemented a whistleblowing procedure to enable anonymous reporting of violations of law and/or of procedures and standards of conduct in place at BOŚ S.A. There is also a dedicated communication channel available to employees for anonymous reporting of any breach of ethical standards;
- 9) Respect for diversity – the Bank has implemented Diversity Policy with a view to, among other things, creating a friendly working environment where every employee feels respected and valued, and can fulfil their individual potential.

Ratio of the average base salary of women to men*

Management and executive positions:	76%
Non-managerial positions:	85%

*Data for BOŚ.

On October 1st 2022, a process was implemented to equalize salaries for BOŚ employees, ensuring that they reached a level representing 166% of the national minimum wage in 2022, regardless of gender or region of employment. The process covered all employees who were actively employed at any location of the Bank as at September 30th 2022, and had salaries below the indicated level.

Additional benefits

The BOŚ Group offers various employee welfare programmes and benefits, both the ones commonly found in business (such as additional financing from the Company Social Benefits Fund) and unique for the Bank. All employees are eligible to receive additional benefits, regardless of whether they work part-time or full-time or under a fixed term or permanent contract.

Employees of BOŚ S.A. and DM BOŚ have access to private healthcare provided through a network of healthcare facilities across the country, with a wide range of healthcare specialists.

Employee engagement

Our employees are a vital asset, and their knowledge and experience drive the organization's development. The Bank consistently focuses on providing optimal conditions for our employees and implements personnel policies to ensure their satisfaction.

To better align our planned activities with employee needs, we conducted an employee opinion survey (BOP) to gather feedback on what is working well and areas for improvement. Over 90% of employees participated in the survey, sharing valuable insights about their experiences at the Bank.

One key finding from the survey was the engagement index, which measures the percentage of employees who identify with our organization and are committed to their daily duties, tasks, and the organization's values. This is a crucial aspect that directly impacts our business indicators.

The survey revealed an employee engagement rate of 39%, which is 7 percentage points higher than the previous year's survey. We also saw an increase in satisfaction for 53 out of the 55 questions measured in both surveys. The highest increases over 2021 are in the following categories:

- Acceptance of diversity (+13 p.p.),
- Management, Career and Development (+12 p.p.),
- Remuneration and appreciation (+12 p.p.).

Projects implemented in 2022, such as the new SOOP compensation and employee evaluation system, as well as development programmes like the Management Academy, EduSFERA, and initiatives focused on changing the organization's culture, such as "We have diversity in nature" and "Value Autumn," have yielded positive results. This is reflected in the findings of the survey.

The survey highlighted that one of our strongest points is the positive rating given by employees to their immediate superiors, with 67% indicating positive experiences. Employees particularly appreciated their superiors' openness, support in difficult situations, and their ability to foster an open and inclusive environment. Cooperation within the organization was also highly rated, with 66% of employees providing positive feedback. Employees appreciated the collaborative approach to achieving goals, maintaining strong communication with colleagues, and the willingness to offer support and share knowledge. In 2022, as pandemic restrictions eased, various activities that were suspended during the pandemic period gradually resumed. Employees had the opportunity to participate in environmental and volunteer initiatives, such as joint forest planting and Operation Clean River. Company-wide meetings, including training sessions and an annual Christmas party, were also reintroduced. Integration among employees was further supported by workshops focusing on communication and cooperation, utilizing the DISC D3 tool which was launched by the Bank in 2022.

These initiatives played a significant role in maintaining relationships and connections among employees. This positive outcome is especially noteworthy, as the good atmosphere and support from superiors are key motivators for employees to engage and participate actively in various activities.

The results in the work-life balance area are encouraging, with 56% of employees rating this aspect positively. Additionally, 55% of employees appreciated the bank's acceptance of diversity, indicating that we have successfully achieved a balanced approach to work and personal life, and fostered an inclusive and open environment.

The bank also provides data on staff turnover for 2022, which stood at 25.04%, representing an 8 percentage point increase compared to the previous year. This increase aligns with the market trend commonly referred to as the "great resignation." To address this trend and minimize turnover in the future, the bank has implemented various measures, including a thorough review and adjustment of salaries in October 2022. Although the overall staff turnover rate increased compared to the previous year, the bank successfully achieved its goal of reducing the departure rate among employees over 50 years of age. The rate decreased by more than 19 percentage points, from 41.73% to 22.43%. The bank has further plans for 2023 to continue reducing the rate of employee departures during this period, implementing additional measures to retain valuable employees.

Total number of employee departures (per person), by age group:	Number of employees (per person)	Number of employee departures (per person), by age group	Employee departure rate
	December 31st 2022	January 1st – December 31st 2022	
<30	113	32	28.32%
30-50	800	205	25.63%
>50	321	72	22.43%
Total	1,234	309	25.04%

The bank recognizes its strong foundation and aims to leverage it in strengthening the organizational culture and creating an exceptional workplace that fosters high employee engagement. As a bank committed to environmental support, we foster a team spirit dedicated to environmental initiatives and the green transition, benefiting both the economy and our clients. We firmly believe that a shared mission unites us and provides additional motivation in carrying out our daily responsibilities. Our focus is on further developing employee competencies and cultivating an open organizational culture that promotes effective performance.

Best HR practices

at the Bank:

- Support in enhancing professional skills and qualifications, co-financing for training courses, postgraduate studies, MBA;
- Development academy 'EduSFERA – reach for development', which included a number of internal and external trainings on development, personal effectiveness and work tools;
- Management Academy – a development programme for managers. It consisted of six training modules dedicated to different leadership competencies. A total of 185 leaders participated in the programme;
- The DPB Certified Diploma in Banking, awarded by the Polish Bank Association, is an internationally recognized certification achieved after successfully completing the EFCB 3E European Banker Certificate Examination. This prestigious certification is developed by the European Banking and Financial Services Training Association (EBTN), based in Brussels. The DPB Certified Diploma in Banking, aligned with the Triple E Standard, adheres to a high-quality standard for professional qualifications in the European financial sector. The Bank has 23 certified employees. Another 12 employees are currently preparing for the certification exam;
- Value Autumn – webinars on corporate values and sharing knowledge within the company;
- Succession plan for key positions;
- Team of internal coaches;
- Free access to a virtual platform offering more than 60 thousand e-books and audiobooks on various topics to borrow and read/listen to on up to four devices;
- Free healthcare for employees available via Enel-Med healthcare facilities network; Preferential healthcare packages for family members; Voluntary free vaccination against flu;
- Access to MyBenefit platform (co-financing of some benefits, such as MultiSport card from the Company Social Benefits Fund (ZFŚS) and a broad offer for children and of tourist and entertainment services at attractive prices);
- Christmas benefits (cash payments);
- Attractive voluntary employee insurance scheme;
- "Przystanek Wellbeing" programme, which aims to support employees in taking care of their wellbeing. In 2022, we organized Health Month to promote the importance of healthy eating within the company. We provided body composition tests and nutritionist advice to employees at 16 locations. Individual online consultations with nutritionists were also offered. To further support healthy habits, we conducted webinars on the topic of healthy eating. Additionally, we participated in the "Be Healthier, Not Heavier" campaign. During the year, we also focused on supporting employees during the outbreak of war in

Ukraine by organizing webinars for all employees and specialized meetings for managers and parents on coping with emotions. Furthermore, we continued a series of meetings aimed at enhancing mental resilience;

- Psychological support for employees under the "Online Psychologist" project. The Bank employees have access to professional psychological support in difficult work and life situations. The counselling is provided remotely and is available to all employees seven days a week;
- Co-financing of employee PPK (Employee Capital Plans) contributions (1.5% of employee remuneration);
- Three days off per year for volunteer or environmental activity;
- Remote work option.

Our HR practices have been recognised by experts from the Top Employers Institute. The Bank was honoured with the TOP EMPLOYER 2023 award, a recognition that validates our efforts in enhancing the work environment, fostering employee engagement, and driving overall company efficiency.

Development

The BOŚ Group recognizes the significance of employee competencies in shaping its market position and continuously invests in their development.

To address the diverse development needs of employees, the Bank has implemented a comprehensive training and development policy, along with a training catalogue tailored to middle and senior management. This policy encompasses all employees and aligns with the Bank's commitment to equal access to competence development.

The Bank emphasizes continuous learning, encouraging employees to apply the knowledge gained from training courses and workshops in their day-to-day work, thereby complementing their experience with practical skills. The purpose of trainings is to prepare employees to effectively perform their duties, but also to assume new roles within the organisation through internal recruitment procedures. Every training and development activity, including e-learning courses, undergoes evaluation to assess its effectiveness, participant satisfaction, and knowledge acquisition. The Bank has planned an onboarding programme called "Welcome to the Green Team" for new employees. This programme includes training sessions, presentations by subject matter experts, and e-learning modules. The program is designed to be interactive, and employees earn points as they progress through different stages of the onboarding process. During onboarding, employees are supported by mentors or "buddies" who provide guidance and assistance.

All training and development activities, including e-learning, undergo thorough evaluation to measure their effectiveness, participant satisfaction, and the level of knowledge acquired.

The total number of training hours, which includes initial training, academic programmes, and e-learning modules, is presented below.

	Number of people		Number of training hours		Average number of training hours		
	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN	Total
Management Board + senior staff	13	29	3,727	4,483	286.69	154.59	195.48
Middle management	135	71	10,924	5,128	80.92	72.23	77.92
Other employees	645	341	26,363	42,375	40.87	46.95	42.98

A day off – for those who care (best practice)

In 2022, employees who actively participated in volunteer or pro-environmental activities were granted an additional three days of leave as an acknowledgment of their dedication. In total, employees dedicated 146 days to activities organized by the company and initiatives within their own communities, aimed at benefiting others.

Safety at work

The BOŚ Group provides its employees with safe and ergonomic work stations. All employees receive obligatory OHS induction training and periodic refreshment training followed by an OHS knowledge test. The training is conducted by internal and/or external experts. The scope of training is adapted to the potential hazards and working conditions of a specific position/job.

In 2022, there were no reports of occupational accidents causing injuries, and the Injury Rate (IR) was 0.0.

Sports activity of employees

As part of the Bank's commitment to social activities and employee engagement, various initiatives are implemented to create a friendly working environment aligned with the values and principles of BOŚ. This includes supporting and promoting employees' sports activities, with coordination provided for the registered sports sections. Out of the 13 registered sections, 8 were active in 2022, covering a wide range of sports such as cross-country skiing, canoeing, shooting, diving, soccer, cycling, mountain-trekking, mental games, sailing, volleyball, table tennis, and tennis. The Bank takes care of the formal aspects of coordinating these sections, including accepting and processing grant applications, ensuring compliance with bylaws, and maintaining ongoing communication on the intranet to keep employees informed about the activities and achievements of the various teams. Notable successes include the BOŚ volleyball team's first-place finish in the preliminary round of the Let's Go Volleyball League, the enrolment for the shooting section, and the reactivation of the sailing section, which embarked on a cruise on Polish lakes.

Supplier verification and procurement policies

The Bank recognizes its responsibility towards its supply chain and takes steps to ensure that its suppliers operate in a sustainable manner. While the Bank's supply chain is limited due to its nature as a financial institution, it remains committed to promoting sustainable practices.

In 2021, the Bank introduced the "BOŚ Supplier Code of Conduct." These standards serve as the foundation for the Bank's relationships with its suppliers, emphasizing integrity, trust, and shared responsibility for business practices. The standards cover various areas including health and safety, human rights, business ethics, employee well-being, and environmental stewardship.

In 2022, the Code was further expanded to include compliance with basic labour rights, specifically addressing minimum wage and maximum working hours.

Each potential supplier participating in the procurement process is required to adhere to the Code and ensure that their subcontractors also comply with it. Suppliers declare their commitment to these principles by submitting a statement along with their bid. Contracts signed with selected suppliers include relevant clauses that reference the Code as an appendix. The Code is also included as an appendix to Purchase Orders.

The requirement to obtain statements applies to all procurement proceedings, with independent units of the Bank's Head Office handling purchases below PLN 20 thousand gross, and the Procurement Office overseeing purchases above PLN 20 thousand gross.

In accordance with the Procurement Principles, directors of independent purchasing units within the Head Office provide monthly reports on completed procurement proceedings. These reports include information on the modes, amounts, and outcomes of each proceeding, as well as information on supplier adherence to the Code.

'BOŚ S.A. Supplier Code of Conduct' also contains provisions on control activities intended to build a sustainable supply chain by, among other things, monitoring suppliers and taking action to exclude those who do not meet the Bank's requirements in this respect.

Every purchase is subject to strict provisions of a separate contract/order. The purchases include services (IT, legal, consulting, cleaning, marketing) and goods (IT hardware, software, advertising materials, office supplies, furniture), etc.

Implementation of changes in supply chain monitoring and evaluation requires time and considerable resources to verify suppliers and develop detailed regulations applicable to them. The process also involves the Bank's existing partners.

THE ENVIRONMENT

As a Polish leader in financing green solutions, the Bank strives to raise among its retail and corporate clients broadly understood environmental awareness covering issues such as environmental protection, organic food, healthy lifestyle, care for one's surroundings, etc. BOŚ S.A., being a green bank, is an example of how financial institutions can contribute to sustainable development.

Environmental policy

The Bank's Environmental Policy reflects its commitment to implementing various measures to minimize the negative impact of its activities on the environment. The Bank is aware of the risks associated with irresponsible use of natural resources and is taking measures to minimize its negative impact on the environment. These measures include:

- financial services provided,
- managing and optimizing the environmental impact of its activities,
- regular monitoring of the Bank's carbon footprint (CO₂ emissions),
- educating employees (e.g. reminding them on the need to turn off the lights, limit the number printouts, limit water consumption and waste generation, including plastic waste),
- Using environmentally friendly materials for the renovation and modernization of the Bank's facilities, as well as exclusively purchasing eco-friendly furniture and fixtures to reduce the environmental impact.

Reducing the negative impact of the Bank's operations on the environment

97% of the electricity used by the BOŚ S.A. and 100% of the electricity used by DM BOŚ comes from green sources. For the remaining 3%, the Bank purchased a guarantee of origin from renewable sources.

We minimise waste generation

The Bank actively manages its waste to minimize its impact on the environment.

Waste generated at the Bank's branches and Head Office is segregated into five fractions, and 50% of the waste is recycled internally. For the remaining waste, the Bank has contracts in place with professional companies for proper management and disposal.

Figures

Year	Number of employees	Estimated volume of municipal waste [t].
2020	1,089	187.3
2021	1,158	199.17
2022	1,234	212.24

The estimated waste generation rate per employee in 2022 was 172 kg.

The Bank is also reducing paper consumption. Double-sided printing is used when possible and colour printing is limited.

We reduce water consumption

All Bank outlets are equipped with water-saving devices to minimize water consumption. These include dual-function flush systems and faucet aerators.

Figures

Year	Sewage generated [m ³]	Sewage sludge [t]
2020	13,652.62	4.52
2021	12,534.20	3.84
2022	13,356.82	4.61

Second life of equipment (best practice)

A significant portion of equipment and electronic devices (PCs, notebooks, phones) no longer used by the Bank's employees is given a second life by being offered for purchase at attractive prices to employees or third parties. Where possible, such equipment is donated to interested public utility institutions.

Resold equipment	Number of pieces
Cell phones	153
Notebooks	195
Computer sets	99 (26 pieces donated free of charge)

Decommissioned tangible assets may be donated to external entities – institutions of science, education, child-rearing, culture, healthcare and social welfare, charity, environmental protection, public order and safety, including organisations referred to in Art. 3.2 and Art. 3.3 of the Act on Public Benefit Initiatives and Volunteerism of April 24th 2003 (Dz. U. 2018, item 450, consolidated text) for the purposes specified in Art. 4 thereof. In 2022, the Bank donated 243 pieces of furniture equipment free of charge, sold 255 pieces, and disposed of 525 pieces.

Paperless – we cut down on paper consumption

At BOŚ, necessary printing is done double-sided, and colour printing is limited to an absolute minimum. The Bank has plans to replace paper with a reduced 70 g/m² weight, which will result in reduced paper consumption and a smaller carbon footprint.

Moreover, the Bank minimizes the number of advertising leaflets, printing them only when new products are introduced or when there are changes in existing product terms and conditions. Advertising flyers are printed on EKO-certified paper.

For mass mailings and other purposes, eco-friendly paper is used.

4.5. We responsibly source marketing items and office supplies

In 2022, the Bank made conscious choices in purchasing promotional gadgets that aligned with ecological criteria. These included:

- products made from ecological raw materials, such as notebooks with cork-bound pens and office calendars made of FSC-certified paper,
- products that promote the protection of natural resources, such as reusable water bottles, waste segregation bags, self-growing basil kits, and reusable shopping bags.

Discontinued promotional materials, especially paper-based materials prepared for specific commercial offers, are collected in appropriate containers for recycling.

The Bank is also actively reducing the use of film on branch windows for advertising purposes by reducing the number and area of windows covered. In 2022, the average area of film per outlet was 6.32 square meters, compared with 8.18 square meters in 2021.

Green initiatives of subsidiaries

DM BOŚ played a proactive role in supporting the green investment financing market within the BOŚ Group. In 2022, it promoted the development of green financing market. The brokerage firm took the lead in organizing the issuance of green bonds for Respect Energy S.A., serving as the sole organizer. The value of the green bonds was PLN 60 million, and the proceeds were specifically directed towards a wind farm project that contributes to sustainable development and aligns with the criteria outlined in the Green Bond Principles.

The services offered by DM MOŚ include intermediation in trading in property rights arising from energy efficiency certificates. The service is used mainly by producers of energy from renewable sources (wind farms, small hydroelectric power plants, PV systems, etc.).

BOŚ Leasing – Eko Profit S.A. provides financing services in the form of operating and finance leases and leasing loans. It also provides financing to broadly understood green investment projects (solutions aimed at reducing energy consumption and RES projects). Moreover, BOŚ Leasing – Eko Profit S.A. helps the Group's clients to obtain green projects financing, combining funds extended by banks, National Fund for Environmental Protection and Water Management and EU development programmes.

MS Wind Sp. z o.o., a subsidiary of BOŚ Leasing – Eko Profit S.A., owns a wind farm (6 MW) in the municipality of Pełczyce.

'Green Office' Certificate

On its path to climate neutrality, the Bank strives to make its operations increasingly environmentally friendly, while constantly monitoring the goals achieved. In 2019, the Bank's Head Office successfully obtained Green Office certification for the first time, which remained valid for a period of two years. In 2021, the BOŚ Head Office successfully underwent the recertification process for the Green Office. The recertification is valid until 2023.

A Green Office certificate is a confirmation that an organisation applies environmental management standards. The certificate is awarded by independent auditors of the international Foundation for Environmental Education, based in Copenhagen.

Being a certified Green Office means compliance with the environmental standard criteria, which can be divided into two groups: technical criteria and environmental education criteria.

The first group covers issues such as the possibility of waste segregation or management of water and electricity consumption. The second group includes criteria related to environmental education of employees, suppliers and clients as well as creating a friendly work environment. The fact that the Bank has yet again been granted the 'Green Office' certificate proves that we keep the top standards in our operations and provide our employees with various opportunities to develop their environmental knowledge.

Green training at Green Bank

BOŚ S.A. is truly concerned about the development of its employees. Therefore, it offers a wide range of webinars and workshops as well as training courses expanding their environmental knowledge.

'Introduction to Environmental Protection' training on basic environmental protection issues and Bank's initiatives in this area is one of the first trainings delivered to new employees at BOŚ S.A. as part of the induction training programme. Every new employee must take a compulsory e-learning course on environmental protection based on the original scenario developed at BOŚ S.A.. It presents key information on areas and technologies of environmental protection, and also on the Bank's green products offer and green project financing options. Moreover, corporate staff is provided with a dedicated training on green transition.

Bank employees have also access to the ECO Library featuring dozens of books and board games promoting environmental protection issues among employees and their families.

The knowledge gained during the training is supplemented with the Green Letter, which is sent to all employees of the Bank at least twice a month, providing information on the latest reports published on the market, interesting events or analytical studies.

The environmental education efforts of the Bank include a 'Cards from ECO Calendar' project presenting major environmental events, such as International Forest Day (March 21), World Water Day (March 22), World Earth Day (April 22), International Biodiversity Day (May 22), World Environment Day (June 6), International Dog Day (August 26), International Bat Night (August 27), International Clean Air Day for Blue Skies (September 7), Battery Recycling Day (September 9), Car Free Day (September 22), or World Fruit and Vegetable Day (October 21).

Environment and Economy

The Bank supports its clients with expert knowledge and experience throughout their investment projects. BOŚ expert team consists of environmental engineers and experts experienced in advising on green transition projects.

The Bank's organizational structure includes the Ecology, Taxonomy and Analysis Division. The Bank offers clients expert support in the field of environmental protection, support programmes and financing of ecological projects.

The Bank actively engages in the dialogue on environmental protection and sustainable finance issues, for example by taking part in the work of task forces set up by public administration bodies, such as the Ministry of Climate and Environment or Polish Bank Association (ZBP). Members of the Management Board and Bank experts participate in thematic conferences on environmental and climate issues, as well as in trade fairs.

Carbon footprint

The Bank has committed in its Climate Policy to calculate greenhouse gas emissions annually and to submit the calculations for independent verification. Targets and actions to reduce the Bank's carbon footprint by 2023 and 2030, respectively, are also set out in the ESG Strategy.

Since 2021, the Bank has been conducting annual calculations of emissions associated with its operating activities. These calculations are independently reviewed by a third-party body. In line with the ESG Strategy, our ambition is to gradually reduce our carbon footprint. We would like to pursue this objective based on scientific knowledge, therefore we have joined the Science Based Targets initiative.

The Bank's emission calculations, conducted in accordance with the GHG Protocol Corporate Accounting and Reporting Standard, are based on comprehensive data collection within each of the three scopes, ensuring accuracy and completeness.

The scopes of the Bank's carbon footprint calculations to date:

Scope 1 – direct emissions

- company cars;
- natural gas consumption;

Scope 2 – indirect emissions

- Electricity consumption;
- heat consumption;

Scope 3 – other indirect emissions

- business travel – by airplane;
- business travel – by train;
- business travel – by private car or rented coach;
- employees' commuting to and from work;
- electricity consumed by employees working remotely from home;
- electricity consumption in connection with the transmission of electricity;
- water consumption;
- wastewater discharged;
- municipal waste generated
- paper consumption;
- courier services;
- greenhouse gas absorption by green areas.

The table below shows the verified emission values for 2020 and 2021.

Scope	Emissions [tCO ₂ eq]	
	2020	2021
Scope 1	170.7	211.1
Scope 2 - <i>location-based</i>	4,092.4	1,986.3
Scope 2 - <i>market-based</i>	2,725.3	620.9
Scope 3	976.8	682.7
Total (location-based)	5,239.9	2,880.0
Total (market-based)	3,872.7	1,514.7

The Bank achieved a significant reduction in emissions, of approximately 60%, based on market-based calculations, with emissions decreasing from 3.87 thousand tonnes in 2020 to 1.51 thousand tonnes in 2021.

In 2021, the emissions per employee in the presented scope were 2,533 kg CO₂eq using the location-based method and 1,332 kg CO₂eq using the market-based method.

Emission figures for 2022 will be published in a separate ESG Report.

Awards for environmental initiatives

The Bank's commitment to pro-environmental activities has been acknowledged and celebrated through prestigious honours and awards.

In April 2022, the Bank was honoured with the Financial Brand of the Year 2022 award in the Bank category, recognizing its continuous support for the green transition of the Polish market.

Additionally, the Bank's efforts in promoting responsible business practices were highly recognized by the Chapter of the Social Responsibility Leaders Programme. As a result, the Bank was honoured as a Laureate of the Social Responsibility Leaders Program in three categories: Good Employer 2022, EKO Company 2022, Good Company 2022. The Bank's achievements and recognitions further affirm its reputation as an institution that prioritizes the needs of local communities and its employees. It solidifies the Bank's standing as a company worth partnering and collaborating with.

In May, the Bank received the prestigious "Diamonds of Sustainable Economy" award in the category of Leader of Sustainable Financing, as recognized by the Competition Jury. The SUSTAINABLE ECONOMY SUMMIT is a significant event that brings together companies from various sectors committed to implementing and attaining sustainable development goals. This is a unique Executive Club project aimed at promoting the idea of sustainable development and responsible business. The highlight of the event is the ceremony of the award gala, "Diamonds of Sustainable Economy". In the jury's opinion, the Bank is a perfect example of how financial institutions can contribute to sustainable development goals. Also appreciated was the Bank's continuously growing engagement in financing green capital projects, Commitment to green bond issues, and raising awareness among retail and corporate clients about ecology, healthy lifestyle and concern for the environment;

In June 2022, BOŚ was honoured by POLITYKA weekly with the CSR Silver Leaf. It is awarded to companies that have demonstrated commitment to incorporating a comprehensive range of sustainability solutions into their daily operations. They implement top-quality solutions and disclose information related to their operations. POLITYKA weekly, in collaboration with consulting firm Deloitte and the Responsible Business Forum, organized an evaluation process inviting companies operating in Poland to assess their sustainable development initiatives and social engagement. The evaluation process involved companies completing a questionnaire based on the ISO 26000 standard, which provided guidelines for assessing corporate social responsibility. The ratings were then awarded based on the analysis of the questionnaire responses

In July, in the 16th edition of the Ranking of Responsible Companies, BOŚ was ranked 12th among the largest companies operating in Poland. The ranking assesses the quality of responsible management practices implemented by these companies. The evaluation is organized by the Kozminski Business Hub, a division of Kozminski University, with the Responsible Business Forum serving as the substantive partner. Deloitte reviews

the responses provided by the companies, while Dziennik Gazeta Prawna serves as the media partner for the ranking. The Responsible Companies Ranking has been compiled consistently for fifteen years by the same team: Professor Bolesław Rok and Jarosław Horodecki, who serve as the ranking's analysts and editors.

In September, in the 7th edition of the '17 Goals' Responsible Film Festival, BOŚ was awarded in the Business category for its corporate film 'We are investing in a green future'. This year, the judges evaluated 40 films in the Business category. The '17 Goals' Responsible Film Festival is Poland's only festival dedicated to documentaries and promotional films revolving around the topics of sustainable development and corporate social responsibility (CSR). The title refers to the UN Agenda and its 17 Global Sustainable Development Goals (SDGs).

Also in September, the Bank was awarded the title of 'Responsible Employer – HR Leader 2022'. In the Bank's opinion, the Judging Panel paid particular attention to the following criteria: continued presence on the labour market with an increasingly attractive employee value proposition; an extensive training system in terms of the amount and content of training as well as the number of employees involved; highest standards of the proposed incentive scheme; an impressive scope of corporate social responsibility activities; special focus on employee activation in the area that is, especially at present, of crucial importance, namely that of broad-based environmental protection and commitment.

PRODUCTS

The mission "We innovatively and effectively support the green transition" is also manifested in the Bank's product offerings. For retail, SME and corporate clients BOŚ S.A. means modern banking products, including 'green' ones, top client service, business ethics and care for the natural environment and sustainable development of Poland. In line with its vision, it comprehensively finances green transition by offering unique products, committed experts and a variety of financial instruments.

The Bank stands out for its broad range of products offering co-financing from BGK, National and Provincial Fund for Environmental Protection and Water Management, and other institutions. Experienced Bank employees, including environmental experts, can arrange financing for various projects that enhance the competitiveness of the Polish economy.

All products are reviewed for their compliance with the law, regulatory recommendations, trade practice and Bank's internal requirements. Key regulations forming the product's legal framework include:

- Banking Law Act, Consumer Credit Act, Mortgage Lending Act;
- Recommendations of the PFSA: S, T, U, Z,
- BOŚ S.A. Rules For Banking Product Development and Management;
- Documents laying down the rules for calculation of interest rates, commissions and charges for individual client groups.

The product offering is created based on:

- clients' goals and needs,
- business needs of the Bank,
- environmental goals derived from the Bank's strategy.

Each new product undergoes a mandatory review by risk-focused departments and the Legal Department. The review includes assessment of material risks and recommended method of risk management, fulfilment of reporting obligations, identification of possible conflicts of interest, compliance.

BOŚ strives to ensure that its products have unique features, distinguishing them from offerings of other banks, while also ensuring their wide availability. In addition, the Bank offers banking products and services through various channels, including its own branch network, financial intermediaries, as well as remote channels such as electronic banking, mobile banking, and telephone banking.

The Bank monitors client satisfaction on an on-going basis. Satisfaction surveys cover product sales and after-sales services at the Bank's outlets. The Bank started to measure satisfaction of the clients using the Bank's call centre.

Several times a year, DM BOŚ conducts online surveys among its clients on products and services offered by DM BOŚ and the functionality of IT systems, with a view to ensuring top quality of products and comfort of investing. The results serve to improve the service quality and inspire the development of new functions in DM's transaction systems.

In the annual survey conducted by the Association of Retail Investors, DM BOŚ has consistently ranked in the top three positions for several years, and has achieved the first position in the last three years. DM BOŚ gets particularly high scores in the following categories: failure-free operation, online platform speed, and the educational offer.

Green loans for PV systems (best practice)

With a preferential loan offered by the Bank, households can easily (and without having to obtain a building permit):

- become prosumers (i.e. someone who both consumes and produces 'green energy');
- reduce their electricity bills.

As standard, a single 1kW PV installation produces 1000 kWh of electricity per year.

"House without bills" campaign (good practice)

A 'GREEN HOME' certificate is the first Polish multi-criteria certification programme for residential buildings, developed by PLGBC (Polish Green Building Council) in cooperation with established experts, integrated into mortgage lending offer. The certificate offers numerous benefits for the investor, developer, owner (client) and the environment.

Green mortgage loan is a unique product offered by the banks participating in the certification programme, promoting the idea of purchasing a house with the PLGBC Green Home certificate. Lower interest rate offered for green mortgage loans due to a lower default risk and a higher market value of certified houses compared to non-certified ones. With significantly lower electricity bills and repair costs, owners of PLGBC certified Green Homes can make extra savings and use them to repay the mortgage loan, which significantly reduces their risk of default. This, coupled with a higher market value of certified properties, enables the Bank to reduce the monthly interest rate on the green mortgage loans, compared to the interest rates on loans offered for standard houses. Benefits of certification:

- Certification criteria confirm that the negative environmental impact of the investment project has been minimised;
- It is an evidence of investors' and developers' conscious effort towards sustainable construction, adapting the applied solutions to best serve the clients'/buyers' health and comfort and to improve the quality of their life;
- It allows clients to obtain a mortgage loan on more attractive terms in cooperation with the Bank and ensures lower maintenance costs.

Sustainable financing – a response to the climate crisis

As one of the pillars of the system for financing environmental protection in Poland, the Bank is aware of its role and responsibility in this area. Being a Polish leader in green project financing, it offers modern and effective financial solutions that enable Polish institutions and businesses to effectively tackle the challenges posed by climate change through transition towards reducing the consumption of natural resources, improving energy efficiency, and increasing the use of renewable energy sources.

BOŚ's commitment is reflected in the development of green products offer and cooperation with key institutions forming the national environmental protection financing system (National and Provincial Funds for Environmental Protection and Water Management); cooperation with business (PGNiG Obrót Detaliczny); active participation in cross-sectoral projects (e.g. agreements on cooperation to support the development of offshore wind power generation, solar power generation, biogas and biomethane sectors, and an agreement for the development of hydrogen economy); collaboration with NGO sector (e.g. Climate Leadership programme run by UNEP Grid Warsaw).

The Bank has always focused on supporting the financing of green investment projects in Poland, and its green financial products are developed in line with the principles of sustainable development. The Bank engages in financing projects that support the EU taxonomy objectives: climate change mitigation and adaptation, transition to circular economy, pollution prevention and control, sustainable use and protection of water and marine resources, protection and restoration of biodiversity and ecosystems. The Bank is one of the first banks in Poland to finance renewable energy projects and it constantly improves the products intended for specific green projects.

Selected green products:

- The fast and easy *Przejrzysta pożyczka* (transparent loan) for replacement of heat sources and thermal upgrading of residential premises (supplementary and bridge financing under the Clean Air programme);
- The *Energia ze Słońca* (energy from the Sun) loan, specifically designed for financing eco-energy projects, enables clients to finance the purchase and installation of photovoltaic panels, heat pumps, accompanying infrastructure, as well as energy storage systems or home charging stations;
- The *Czyste powietrze* (clean air) loan for replacement of heat sources and thermal upgrading, with loan repayment subsidies under governmental 'Clean Air' programme;
- Attractive loans offered in cooperation with Provincial Funds for Environmental Protection and Water Management (WFOŚiGW) in selected provinces, e.g. for replacement of heat sources, thermal upgrading and RES installations;
- Loans for thermal upgrading and renovation projects with a bonus from the Thermal Modernisation and Renovation Fund for partial repayment of the loan;
- Attractive loan promotions for clients who are planning to implement PV projects, engage in water conservation initiatives, or purchase electric means of transport;
- Green mortgage loans;
- A special offering addressed to developers adhering to BREEAM or LEED or similar standards;
- Green Savings Loan ('EkoOszczędny'), enabling repayment with the use of savings generated by the project financed with the loan and with the cost-free Biznesmax loan guarantee;
- Investment credit facility to finance solar power generation plants with a capacity of up to 1 MW (inclusive);
- Payment cards featuring animals, intended to draw clients' attention to endangered species in Poland.
- It is the only financial product on the market authorised to use the Climate Leadership logo, focusing on preventing and mitigating the effects of droughts – *Nasza Woda* (Our water);
- Loans available as part of the EIB facility, with the Green Investments component, designed to support projects that contribute to meeting environmental protection needs.

Since 2021, the Bank has also participated in the My Electric Car Programme ('Mój Elektryk'), consisting in co-financing leasing of zero-emission vehicles from funds provided by the National Fund for Environmental Protection and Water Management. Furthermore, under the agreement with the European Investment Bank executed in 2022, the Bank has access to funds that can be utilized to support investors in implementing investment projects aimed at improving energy efficiency. The support consists of subsidizing 90% of the cost of project documentation.

In institutional lending, the Bank adopted regulations for the conduct of transactions designed to support the achievement of ESG goals by its clients.

Image and honest communication

The Bank follows appropriate rules for drafting and publishing banking information and advertising materials, including clear indication of the nature of individual bank publications, in order to ensure proper functioning of the banking sector - including adequate protection of the interests of bank clients - and compliance with the principles of fair trading and best practices developed by financial market players, in particular the Financial Market Code of Best Practice (Kanon Dobrych Praktyk Rynku Finansowego). Every marketing material is subject to review, both during drafting and when used in marketing campaigns, in order to ensure compliance with the law, best practice and the PFSA's guidelines. The Bank has not identified any non-compliance in this respect.

Stock exchange education (best practice)

DM BOŚ, as one of the first brokerage offices in Poland, focused on consistent education as a key to informed investing on the capital market. DM BOŚ website offers a range of free training courses, e-learning workshops and tests introducing new clients into the world of investing and allowing experienced investors to broaden their knowledge. The materials have a clear and user-friendly format.

An ample source of knowledge and analysis on the current economic and geopolitical situation are the bossa.pl blogs run by experts and analysts of DM BOŚ. DM BOŚ has been frequently awarded for its contribution to economic education of Poles.

The Brokerage House also fulfils its educational mission through its YouTube channel. In recent months, DM BOŚ's profile has been reactivated, with a series of short educational videos released. This is yet another way for DM BOŚ to effectively reach a wide range of investors who are seeking information and knowledge about investing in the capital market.

DM BOŚ actively participates in various educational projects, collaborating with the WSE Foundation, to introduce secondary school and university students to the intricacies of the capital market.

Procedures in brokerage activities

Due to the nature of its operations, DM BOŚ applies detailed internal marketing and sales procedures which ensure compliance with the law, industry standards and ethical values of the Group. Marketing materials are reviewed by the Compliance Department. DM BOŚ efforts to prevent dishonest sales practices include on-going employee education, monitoring of sales calls, and the remuneration system based, among other things, on quality criteria.

SOCIETY

Health, environment and volunteerism are the pillars of the BOŚ Foundation, which has managed and supported social initiatives of the Bank and DM BOŚ for more than 13 years. The Foundation's mission is to promote and implement the principles of sustainable development, seeking balance between continuous improvement of the standard of life of people and the impact this improvement has on the natural environment.

What makes the activities and initiatives supported by the Foundation stand out is:

- true faith in the sense of systematic and long-term action;
- focus on sustainable social change;
- the scope, form, and partners of programmes matching the specific needs of the local community;
- cooperation with individuals and institutions sharing the values embedded in the Bank's social responsibility;
- pro-active attitudes of the Bank's employees - both in diagnosing the needs of the local communities and engaging in voluntary work.

Pillars of social work of the Foundation

PILLAR	ASSUMPTIONS	EXAMPLES OF INITIATIVES (FOR DETAILED DESCRIPTION, SEE THE WEBSITE OF THE FOUNDATION)
Health	Raising awareness on the role of healthy diet and physical activity in retaining good health in the time of global changes	'Zdrowo jem, więcej wiem' (Fit Diet, Fit Brain) project Aktywniepozdrawie.pl (Active means Healthy) PlanujeGotuje.pl (Cooking with a plan)
Environment	Raising social awareness about sustainable development and environmental issues; Promoting environmental care ideas, particularly among young people.	Postaw na słońce (Bet on the Sun) Brudno Tu (It's Dirty Here) Zielona Ławeczka (Green Bench) Tradycyjny sad (Traditional Orchard) Świat oczami młodych (World through the Eyes of the Young) Ecomurals BOŚ Foundation Academy Cooperation with the Copernicus Science Centre Cooperation with the Science Festival
Voluntary work	Active involvement in voluntary work as a component of the corporate social responsibility policy and one of the key components of the organisational culture, strengthening relations among employees.	Micro-subsidies Pomagam cały rok (Helping All Year Round) Fundraising for Ukraine

Social reach (selected data)

- More than 1,000 participants from 215 student teams from across Poland in the 8th edition of *Postaw na słońce* (Bet on the Sun). They prepared 308 designs of micro PV installations for single family houses and made 28 films promoting RES.
- 400 people from neighbourhood teams enrolled in the 8th edition of the *Zielona Ławeczka* (Green Bench) project (15 grants awarded).
- More than 2,300 submissions (from over 47 thousand pupils and teachers) in the 12th edition of the health promoting programme for primary schools (grades 1 to 3) *Zdrowo jem, więcej wiem* (Fit Diet, Fit Brain).
- More than 1,300 pupils and teachers set up nearly 110 mini orchards and planted nearly 600 fruit trees of old varieties.
- 250 mural projects in the *Świat oczami młodych* (World through the Eyes of the Young) competition, of which the best six received funding for implementation. As a result, six murals promoting biodiversity were created.

Sustainable development initiatives

In 2022, the Foundation established a partnership with the Copernicus Science Centre in Warsaw, the largest institution dedicated to promoting science among children and young people. The purpose of the collaboration was to provide support for the Copernicus Science Centre's most extensive and longstanding educational programme called The Young Explorers' Club, where children can conduct scientific experiments and discover the laws of physics and chemistry under the supervision of tutors, gaining knowledge and developing competencies of the future. Nearly 1,000 clubs have been established as part of the programme, in Poland and abroad. The Foundation funded the "Air Quality Module" teaching kits, which were utilized for research and experiments conducted in the Young Explorers' Clubs. The kits, which included a range of equipment, reagents, and even a do-it-yourself minicomputer, facilitated the learning process for young individuals as they explored the analysis and assessment of air quality through conducting basic measurements and experiments.

In 2022, the Foundation again partnered with the University of Warsaw as a donor in the 26th edition of the Science Festival. In addition, the Foundation acted as the patron of a debate opening the Festival, entitled "What kind of energy do we need?". The Science Festival in Warsaw is a joint initiative of the largest Warsaw universities, with organisational support from the University of Warsaw, with a mission to promote and encourage interest in science. Meetings, lectures and debates are addressed to diverse audiences, regardless of the educational background or age. The festival was extremely popular. The event was organized in collaboration with 113 scientific institutions, including universities in Warsaw, institutes of the Polish Academy of Sciences, branch institutes, scientific societies, and museums. Together, they organized 690 meetings, lessons, and festival exhibitions, with 625 held in-person and 75 conducted online. The meetings, lessons, and both in-person and online exhibitions collectively attracted approximately 31 thousand attendees. Additionally, the recorded content reached an estimated 40,000 viewers.

The Foundation provided support to the WroSpace Association for the organization of the Space Week Wrocław event, which took place on October 1st-October 2nd 2022. The event focused on the promotion of science, particularly the dissemination of knowledge about space. During the two-day event, participants had the opportunity to attend the conference titled 'The Role of Women in Science and Engineering', along with engaging in various demonstrations and workshops. The entire event was attended by about 2 thousand people.

BOŚ Group employee engagement

Micro-subsidies

BOŚ Group employees can apply for funds under the Micro-subsidies project to finance initiatives addressed to a specific local community and are carried out by employees in cooperation with selected non-governmental organizations or public institutions.

Pomagam cały rok (Helping All Year Round) (individual charity initiatives)

'Helping All Year Round' – regular charity initiatives of BOŚ Group employees and the Foundation. The project was created in response to the needs of the BOŚ Group's employees wanting to help their colleagues who are in difficult personal circumstances and to raise funds for charitable causes. Thanks to the generosity of BOŚ employees, scholarships for talented young people from low income families were also awarded under the project. Three students under the care of the Santa Claus Foundation, with which the BOŚ Foundation has been working for several years now, received support in the 2021/2022 school year. In the autumn of 2022, the Foundation carefully selected new recipients for its scholarships and also opened a call for applications specifically targeted at Bank employees who were facing challenging life situations.

A day off – for those who care (best practice)

In 2022, employees who actively participated in volunteer or pro-environmental activities were granted an additional three days of leave as an acknowledgment of their dedication. In total, BOŚ employees dedicated 146 days of their time to engage in activities organized by the Bank or contribute to other communities for the benefit of others.

Director's Report on the operations of the BOŚ Group in 2022

VIII. REPRESENTATION ON THE RELIABILITY OF FINANCIAL STATEMENTS

The Management Board of Bank Ochrony Środowiska S.A. represents that, to the best of its knowledge, the Full-Year Consolidated Financial Statements of the Bank Ochrony Środowiska Group for the year ended December 31st 2022 and the Full-Year Financial Statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2022 have been prepared in compliance with the applicable accounting policies and give a true, fair and clear view of the assets, financial condition and financial results of the Bank Ochrony Środowiska Group and Bank Ochrony Środowiska S.A., and that the Directors' Report on the operations of the Bank Ochrony Środowiska Group, prepared together with the Directors' Report on the operations of Bank Ochrony Środowiska S.A. in 2022, gives a true view of the development, achievements and condition of the Group and the Bank, and includes a description of key risks and threats.

Signatures of Members of the Management Board

Date	Name and surname	Position held	Signature
March 21st 2023	Emil Ślęzak	Vice President of the Management Board, responsible for activities of the Management Board	Signed with qualified e-signature
March 21st 2023	Arkadiusz Garbarczyk	Vice President, First Deputy of President of the Management Board	Signed with qualified e-signature
March 21st 2023	Robert Kasprzak	Vice President of the Management Board	Signed with qualified e-signature
March 21st 2023	Jerzy Zań	Vice President of the Management Board	Signed with qualified e-signature