



DIRECTORS' REPORT ON THE OPERATIONS OF BANK OCHRONY ŚRODOWISKA GROUP IN 2020

prepared together with the Directors' Report on the operations of Bank Ochrony Środowiska S.A.

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SUMMARY OF THE FINANCIAL RESULTS OF THE GROUP

The Group of Bank Ochrony Środowiska S.A. (the BOŚ 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.

Results of the BOŚ Group

In 2020, the BOŚ Group reported a net loss of PLN 306.9m, compared with a net profit of PLN 72.0m in 2019.

The main factor affecting the Group's financial performance was the recognition of provisions for legal risks related to foreign currency mortgage loans following an increase in court cases. The provision covers the costs assumed in the adopted scenarios of possible resolution of the issue, i.e., reaching out-of-court agreements with clients or unfavourable court rulings. The provision also accounts for the impairment identified in accordance with the expected credit loss model (that is impairment of loans with respect to which the clients have filed court actions to have the agreements rescinded). With respect to the scenario that takes into account the possibility of concluding out-of-court agreements with clients, it was assumed that the sector-wide resolution of the issue of foreign currency-denominated mortgage loans proposed by the Chairman of the Polish Financial Supervision Authority would materialise. As at December 31st 2020, the amount of the provision was PLN 399m.

The Group's results were also negatively impacted by COVID-19, mainly through decisions of the Monetary Policy Council to reduce interest rates by a total of 140 basis points in 2020. The lower interest rates translated into a PLN 49.0m decrease in the net interest income of the BOŚ Group in 2020 relative to 2019. In addition, the Group's profit or loss was adversely affected by impairment losses on loans. The estimated effect of the COVID-19 pandemic on retail and institutional client portfolio write-downs totalled PLN 16.8m.

Despite the creation of provisions for the risk related to mortgage loans denominated in foreign currencies the capital adequacy ratio of the Group as at December 31st 2020 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional provisions. The Tier 1 capital ratio was 13.09%, compared with 14.19% as at the end of 2019, and the total capital ratio was 14.86%, compared with 16.39%.

It should be noted that in 2020, despite operating in a business environment affected by the COVID-19 pandemic, the BOŚ Group posted:

- record net commission income of PLN 134.6m, higher by 36.8% compared with 2019,
- a 65.5% increase in the result on financial instruments measured at fair value through profit or loss,
- a 628.4% increase in the result on investment securities compared with 2019,
- a 59.9% improvement in the result on foreign exchange transactions compared with 2019,
- a 10.9% increase in total assets relative to the end of 2019,
- a 4.8% increase in the balance of environmental loans relative to the end of 2019,
- a 11.2% increase in liabilities to clients relative to the end of year 2019,
- the LCR at a safe level of 158%, up by 27 pp on the end of 2019.

Assumptions for the new Strategy

The Bank is working on a new Strategy that will strengthen the business model related to its focus on environmental protection and will emphasize the Bank's role in the green transformation process. The Bank intends to continue its organic growth in financing environmental protection projects.

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

	(PLN '000)	2020	2019	Change (%)
Net interest income	[1]	370,980	419,987	-11.7
Net fee and commission income	[2]	134,590	98,373	36.8
Result on financial instruments measured at fair value through the profit and loss account	[3]	74,461	44,957	65.6
Legal risk costs of mortgage loans denominated in foreign currencies	[4]	-353,021	-21,221	1,563.5
Net other income		27,391	33,982	-19.4
Net impairment losses	[5]	-163,793	-104,536	56.7
Administrative expenses	[6]	-376,361	-361,354	4.2
Profit before tax		-285,753	110,188	x
NET PROFIT		-306,934	71,994	x.

1. The Group's net interest income was PLN 49.0m, having decreased 11.17% on 2019. Interest income and similar income decreased by PLN 109.0m, or 17.4%, on 2019. Interest expense decreased by PLN 60.0m, or 28.9%. Interest income and interest expense fell mainly as a result of interest rate cuts made by the Monetary Policy Council.
2. Net fee and commission income increased by PLN 36.2m, or 36.8% year on year, mainly due to higher brokerage service fees, higher commission income on loans and guarantees, and lower payment card fees.
3. The result on financial instruments measured at fair value through profit or loss increased by PLN 29.5m, or 65.6%, mainly due to high volatility in financial markets, which affected the number of transactions executed by the clients of Dom Maklerski BOŚ S.A.
4. Due to an increase in court cases, the cost of legal risk related to mortgage loans denominated in foreign currencies, affecting the 2020 results, reached PLN 353.0m.
5. Net impairment losses were down by PLN 59.3m, or 56.7% compared with 2019, mainly due to higher impairment losses in the segment of institutional clients.
6. Administrative expenses of the Group rose by PLN 15.0m, or 4.2%, year on year. Higher administrative expenses were reported mainly at Dom Maklerski BOŚ S.A., driven by an increase in salaries and wages due to record high results posted by the Company. At the Bank, employee benefit obligations increased by PLN 2.0m, or 1.7%, mainly due to provisions for accrued holiday entitlements, not used because of the pandemic.

Financial ratios of the BOŚ Group

	2020	2019	Change in percentage points
Return on capital (ROE)	-14.9	3.3	-18.2
Return on assets (ROA)	-1.6	0.4	-2.0
Interest margin on total assets	1.9	2.3	-0.4
Risks costs	-1.2	-0.8	-0.4
Costs/income (C/I)	62.0	60.7	1.3
Total capital ratio	14.86	16.39	-1.53

The interest margin on total assets, calculated as the ratio of net interest income to the average opening and closing balance of assets, amounted to 1.9%, compared with 2.3% for 2019, mainly due to interest rate cuts made by the Monetary Policy Council as well as lower loan profitability.

Impact of the COVID-19 pandemic on the operations and prospects of the BOŚ Group

In 2020, the BOŚ Group maintained its full operational capacity. A number of solutions were put in place to maintain business continuity and mitigate the epidemic risk, both for employees and for clients visiting the Group's branches. A significant group of BOŚ Group employees carried out their duties remotely.

The Bank and the Group companies maintained capital safety ratios above the minimum regulatory levels and did not see any a significant impact of the pandemic on liquidity and capital adequacy.

During the pandemic, BOŚ accelerated the digital transformation process. The activities undertaken as part of this process included increasing the role of electronic distribution channels, launch of the Bank's new website, implementation of a new mobile application, automation of recurring business processes at the Bank (Robotic Process Automation), and launch of a proprietary solar PV calculator in September 2020. An environmental performance meter was placed in service, showing the benefits of environmental investments made with the Bank's financial support on an ongoing basis. In the last quarter of 2020, a chatbot service provider was selected. The Bank's clients were given the opportunity to use Express Elixir instant transfers. In the second half of the year, development work on enabling the ePUAP (electronic platform for public administration services) service and BLIK payments began. In November, a strong authentication solution for e-commerce card transactions (in accordance with PSD2 SCA and MasterCard 3DSecure 2.0 requirements) was implemented and made available to Clients. In December 2020, a mobile card payment service in the GPay app was launched for retail clients. In 2020, the Bank carried out activities related to the concept of client centrality.

A number of initiatives were undertaken to broaden the knowledge of environmental protection and promote environment-friendly attitudes among the Bank's employees and clients as well as the local communities.

Actions for the Bank's clients to contain the negative impact of the COVID-19 pandemic and protect the quality of the loan portfolio

In 2020, the Group offered clients special solutions to mitigate the negative effects of the COVID-19 pandemic, including support in maintaining financial liquidity. These included, among others, a periodic reduction of financial burdens and convenient solutions for extending or signing agreements. The assistance changed according to the pandemic situation and restrictions on business activity, taking into account regulatory guidance. Clients made use of the options offered by the Bank:

- Suspension of loan principal payments (excluding exchange-traded loans). In 2020, the Bank signed 3,897 annexes to credit facility agreements, providing for suspension of principal payments. 3,522 retail clients and 375 institutional clients took the temporary payment holiday. The amounts of retail clients' and institutional clients' loans covered by the payment holiday were PLN 0.5bn and PLN 2.8bn, respectively,
- Support received through BOŚ S.A. in the form of financial subsidies offered under the Polish Development Fund's Financial Shield. By the end of 2020, 1,004 economic operators received funds totalling PLN 285.3m,
- Obtaining a guarantee under the Portfolio Guarantee Facility of the BGK Liquidity Guarantee Fund (PGF LGF) as security for a liquidity loan. The guarantee covered both new and revolving overdraft loans and credit facilities. The offer was extended to the medium and large enterprises sector. The total amount of credit facilities secured with the PGF LGF Guarantees was PLN 678.4m,
- Obtaining guarantees under the de minimis guarantee scheme implemented as part of the government programme 'Support for Entrepreneurship Using BGK Sureties and Guarantees', implemented to improve access to financing. The total amount of credit facilities secured with the PLD-KFG de minimis guarantees was PLN 302.0m,
- Obtaining Biznesmax Guarantees from the Guarantee Fund of the BGK Smart Growth Operational Programme to support innovative projects in the SME sector. The total amount of credit facilities secured with the Biznesmax Guarantees was PLN 132.1m,
- Obtaining a factoring facility repayment guarantee from the Factoring Portfolio Guarantee Facility from the BGK Liquidity Guarantee Fund (FPGF LGF). The guarantee is offered to clients from the SME sector and large enterprises affected by the COVID-19 pandemic as a liquidity instrument, irrespective of the industry. The total amount of credit facilities secured with the Factoring Guarantees was PLN 91m,
- special solutions for borrowers under the Jessica and Jeremie facilities to mitigate the negative effects of the COVID-19 pandemic.

Measures to mitigate the adverse impact of the COVID-19 pandemic on results

The Bank took a number of steps to mitigate the negative impact of the pandemic on its performance. In order to protect the interest margin, the interest rate on deposits was reduced and the fee and commission tariff was reviewed and changed. In addition, following a review, the Bank decided to limit costs and capital expenditure to the level necessary for safe and efficient operation. The suspended expenditure may be gradually spent later, depending on performance and needs. Due to a significant risk of deterioration in the credit standing of Bank's clients, the sales staff focused on steps to protect the quality of the loan portfolio, primarily by identifying and supporting borrowers by offering solutions enabling them to maintain liquidity and keep repaying the loans granted by the Bank.

In order to minimise the impact of the COVID-19 pandemic on credit risk, the Bank introduced lending restrictions, including:

- suspension of new lending in currencies other than PLN.
- introduction of a list of high-risk industries which the Bank does not finance.
- reduction of the range of ratings of clients from the KORPO and SME segments which may be financed by the Bank.
- suspension of lending to natural persons using a simplified creditworthiness assessment method and creditworthiness assessment based on funds credited to the account.
- maximum LTV for commercial income properties of 60%.

In the retail segment, after the introduction of restrictions on lending in the initial period of the pandemic, in October 2020 a decision was made to reinstate the rules applicable before the pandemic, in particular:

- the limits for unsecured transactions were restored;
- the automatic decision criteria were restored;
- it was again allowed to carry out creditworthiness assessments taking into account income:
 - from abroad,
 - under civil-law contracts (piece-work contracts and mandate agreements),
 - from sole trader activities in industries subject to restrictions for institutional clients (using income-adjusting indices at the pre-pandemic level).

Changes in portfolio write-down estimation process

- Due to changes in macroeconomic factors in the reporting period and a higher weight of the worst-case macroeconomic scenario in the model for estimating write-down using the portfolio-based method of impairment measurement in view of the impact of COVID-19, additional write-downs of PLN 4.5m were recognised for the retail client portfolio in 2020.
- A PLN 4.6m write-down was recognised in 2020 in connection with the statutory loan deferments granted to clients because of the crisis caused by COVID-19,
- the introduction of a temporary expert PD adjustment for the institutional portfolio by client sector – the adjustment of the PD parameter in estimating portfolio write-downs reflects the sensitivity of individual industries to the COVID-19 crisis. In 2020, a PLN 12.3m allowance for expected credit losses caused by the COVID crisis was recognised.

Lower interest income offset by good results of brokerage activities

The decrease in interest income as a result of the interest rate cuts made by the Monetary Policy Council was largely offset by an increase in revenue from other sources, mainly brokerage activities. Low interest rates and continuing high market volatility triggered increased interest in the capital market among retail clients seeking positive rates of return. The number of online investment accounts at Dom Maklerski BOŚ S.A. increased by more than 15 thousand in 2020. In addition to new investors, investors holding open accounts but not executing transactions in recent years returned to the capital market. In 2020, the turnover generated by the clients of

Dom Maklerski BOŚ S.A. on the equity market in session trades soared by 113.6% year on year, and on the NewConnect market – by 880.8%. Brokerage fee income rose by PLN 41.9m, or 70.3%.

Higher share of environmental loans in the credit balance

The share of loans granted for activities supporting environmental protection and sustainable development has increased and now amounts to 36.3% of the Bank's total loan portfolio (34.5% at the end of 2019). As at December 31st 2020, environmental loans amounted to PLN 4.7bn, up by 4.8% on the end of 2019.

Development of cooperation with the NFEPWM

In 2020, the Bank's cooperation with the NFEPWM was focused on operational management of priority programmes, mainly the Prosument II programme, and on acquisition of new clients seeking to raise financing for environmental projects and clients which have applied for or obtained direct support of the NFEPWM as a part of EU or domestic assistance programmes for environmental projects.

The Bank actively participates in the work on engaging the banking sector in the implementation of the "Czyste Powietrze" ("Clean Air") programme, which is aimed at improving the quality of life and health of inhabitants of Poland through liquidation of air pollution. The forms of funding available under the new version of the programme include a grant for partial cancellation of a bank credit facility. The Bank's offer includes the "Transparent Loan", which provides preferential terms for financing of non-eligible costs of undertakings within the framework of this programme or bridge financing, until the investor obtains a subsidy.

At the beginning of September 2020, together with other banks BOŚ S.A. commenced talks with the NFEPWM concerning support for the financing of electric vehicles.

The Bank also cooperates with the Provincial Environmental Protection Funds. In 2020, as part of such cooperation, the Bank financed environmental projects, mainly in the area of air protection, including in the first place the financing of solar panel systems and replacement of heat sources with environmentally friendly alternatives.

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

1. Macroeconomic situation

In 2020, the situation in the global and national economy was determined by the COVID-19 pandemic and the ensuing economic crisis. Most countries worldwide, at different times and to different extents, imposed restrictions on socio-economic activity and periodic bans on conducting business activity in the industries with the highest risk of transmitting the infection. At the same time, economic policy measures aimed at mitigating the negative effects of those restrictions and the resultant weakening of economic activity were implemented at an unprecedented scale.

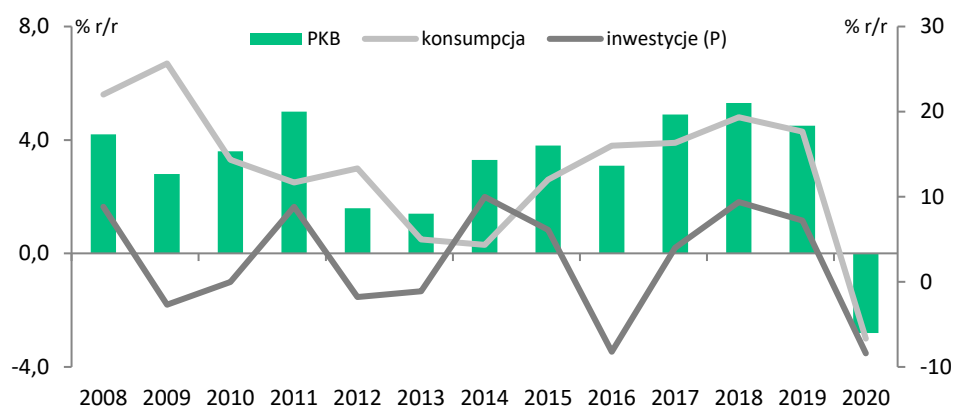
In the case of the Chinese economy, the pandemic restrictions were the strictest in the first quarter of 2020, and the second quarter saw their gradual lifting and unlocking of the economy. In Europe and the United States, the first round of restrictions occurred in spring. Coupled with growing economic uncertainty and disruption of global supply chains, it led to a steep GDP decline in the US and the eurozone in the second quarter. May saw the start of gradual lifting of the restrictions and in the third quarter most of them ceased. As a result, following a decline in infection rates and increase in population movement, the third quarter saw a strong rise in GDP relative to the previous quarter in the US and the eurozone.

At the end of the third and beginning of the fourth quarter, the infection rates soared again, first in Europe and then in the US. In late October and early November, the second wave of infections forced many European countries to reimpose restrictions similar to those seen in spring. The restrictions on economic activity and

population movement, eased during the pre-Christmas season, were put back in place in most European countries at the end of the year, leading to another economic slump in Europe in the fourth quarter.

Throughout 2020, the economic crisis triggered by COVID-19 caused a deep global recession. The US GDP fell 3.5%, in the eurozone – 6.7%, including 5.3% in Germany.

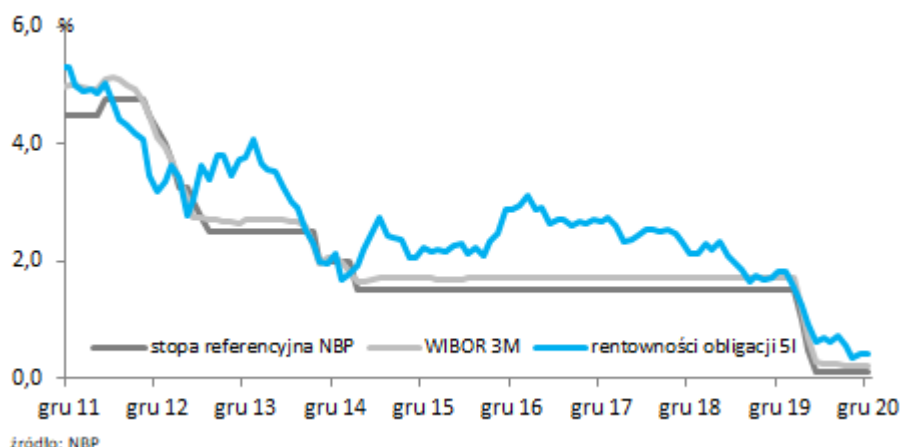
In the case of the Polish economy, a very good beginning of 2020 was followed by a sharp decline in activity since March, mainly in some of the lines of the services sector, in trade and in industry, amid reduced population movement, restrictions and the global economic downturn. As a result, in the second quarter of 2020 Poland's GDP fell by 8.2% year on year. In the third quarter of 2020, when most of the administrative restrictions were lifted and the economic conditions abroad improved, the Polish economy grew significantly and, as a result, the GDP – at -1.5% year on year – deteriorated less sharply. In October and November, in view of a marked increase in confirmed cases of the COVID-19 infection, the restrictions on social and economic activity in Poland were reintroduced. In early November, trade and services were subject to restrictions, largely corresponding to those put in place in spring. Lifted for the pre-Christmas season, the restrictions were re-imposed at the end of the year. As a consequence, economic activity deteriorated again in the fourth quarter, but not as much as could be expected given the scale of the restrictions. Throughout 2020, GDP fell -2.8%, compared with an increase of 4.5% in 2019.



The rapid weakening of economic activity in the second quarter had no adverse effect on labour conditions in Poland. However, given the scale and pace of the GDP decline, their deterioration should be considered limited. The severity of job losses was significantly reduced by the governmental anti-crisis measures. Companies mainly chose to reduce working hours and salaries rather than cut jobs altogether. In addition, the labour market conditions picked up following a strong economic upturn in the second half of the year. As a result, in 2020 the rate of unemployment growth was moderate (up by 180 thousand people compared with the end of 2019), as was the increase in the registered unemployment rate, which stood at 6.2% at the end of September, compared with 5.2% in December 2019.

In view of the economic slump observed in the first half of 2020, a number of monetary and fiscal policy measures were implemented in Poland to mitigate the negative effects of the crisis.

In the case of monetary policy, the Monetary Policy Council reduced interest rates between March and May by 140 basis points. The National Bank of Poland's reference rate was reduced to 0.10%, the deposit rate to 0.00%, the lombard rate to 0.50%, the bill rediscounting rate to 0.11%, and the bill discounting rate to 0.12%. At the same time, the National Bank of Poland declared its readiness to supply liquidity to the banking sector in repo transactions and support the banking sector with financing in the form of bill discounting facilities, and commenced purchasing treasury bonds and bonds guaranteed by the State Treasury on the secondary market. By the end of December, the Central Bank purchased PLN 107.14bn worth of assets.



In March and April 2020, the government took a number of measures under the Anti-Crisis Shield to improve the financial situation of businesses and protect employment. Among the most important measures were temporary exemption from the obligation to pay social security contributions (and cancellation of the contributions), postponement of payment dates for various public dues (and allowing their payment by instalments), and subsidies to salaries and wages (including under mandate agreements). The measures were financed from the Guaranteed Employee Benefits Fund, EU funds, in the form of furlough benefits, micro grants for sole traders, extension of the scope of credit facility guarantees (granted by BGK). In October 2020, as the second wave of the pandemic came, the 'Tourism Shield' was launched to support the event, hotel and tourism industries severely impacted by the administrative restrictions (support for approximately 20 NACE codes). The support included the measures and benefits already provided as well as exemptions from the obligation to pay, and cancellation of, social security contributions. As at the end of 2020, the value of public funds used in the Anti-Crisis Shield was approximately PLN 56bn (excluding credit facility guarantees, which also amounted to approximately PLN 56bn). Moreover, as part of the Financial Shield of the Polish Development Fund businesses affected by the COVID-19 pandemic could use financial subsidies (partially non-repayable) for the corporate sector. By the end of 2020, approximately PLN 64bn was paid under the Finance Shield. The assistance was provided to more than 346 thousand companies with approximately 3.2m employees. At least 4.7m employees benefited from subsidies to salaries and wages under the Anti-Crisis Shield. In November and December, preparations were launched to provide support for businesses operating in the industries affected by the restrictions on operations introduced in autumn (approximately 50 NACE codes), both under the Anti-Crisis Shield and the 2.0 Financial Shield of the Polish Development Fund. Payment of financial assistance under these facilities started in January 2021.

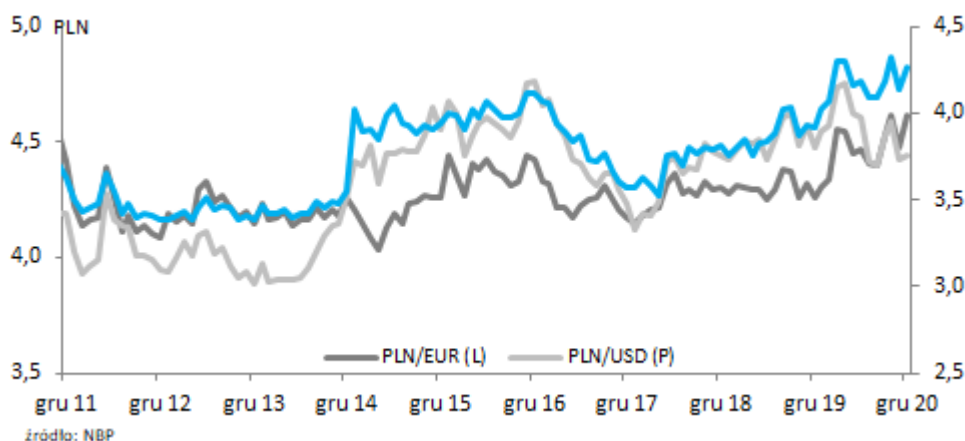
2020 saw extreme volatility in the prices of financial assets. Following a sharp deterioration in market sentiment at the end of the first and beginning of the second quarter (when global risk aversion reached its peak), the global market situation started to improve during the second quarter. The improvement of sentiment was driven by the measures taken by central banks and governments to stimulate the economy (fiscal packages, quantitative easing by the Fed and the ECB). As of May, the market was increasingly buoyed by further decisions to lift the administrative restrictions related to the pandemic and by improvement in the macroeconomic climate. In the third quarter, demand for risky financial assets continued. At the end of the third and beginning of the fourth quarter, market sentiment became negative again and risk aversion picked up due to resurgence of the pandemic in Europe and the US. However, in the fourth quarter market optimism was fuelled by the news of successful completion of the tests on COVID-19 vaccines, followed by the approval of the first vaccines and the start of vaccination at the end of the year.

Following a more than 20% drop in the synthetic index of the global stock market in the first quarter, in the next quarters of the year the index recovered despite periodic downward corrections and increased by more than 11% at the end of the year compared with the end of 2019 and by more than 53% compared with the low recorded in the first quarter.

In 2020, the profitability of government securities on the underlying markets (US, Germany) fell significantly and remained close to historic lows until the end of the third quarter. In the fourth quarter, growing expectations of economic recovery in 2021, driven by the vaccination programme, and the significant scale of

expected further quantitative easing in the US following Joe Biden's victory in the US presidential elections, boosted the rate of return on T-bills/government bonds in the US and Germany.

In 2020, the global financial markets were highly volatile, and the situation on the Polish market was no different. Changes in the domestic market during the year followed similar cycles as global market developments, but in general domestic assets with a higher risk profile (equities, PLN exchange rates) lost in value in 2020. The main WIG index fell by 1.4% relative to the end of December 2019, and the PLN exchange rate lost 8.4% against the euro and 8.7% against the Swiss franc. In December 2020, foreign exchange interventions of the National Bank of Poland contributed to the weakening of the Polish currency. The NBP justified the interventions with the wish to prevent a stronger appreciation of the zloty, thus improving the effectiveness of the NBP's monetary policy.



Following interest rate cuts by the NBP, the domestic interbank offered rate (3M WIBOR) fell by 150 pp, to 0.21% as at the end of 2020. At the same time, in view of the lower NBP interest rates and the bond repurchase by the central bank the profitability of government bonds fell significantly despite the quantitative easing and a significant increase in the borrowing needs of the state. Throughout 2020, the yield on two-year bonds fell by 142pp, to 0.01%, on five-year bonds – by 138pp, to 0.41%, and on ten-year bonds – by 88pp, to 1.30% as at the end of 2020. At the same time, the NBP's bond repurchase policy significantly improved the stability of bond prices, also during increases in global risk aversion.

2. Measures taken by the Bank in connection with the COVID-19 pandemic

The Bank has introduced a number of special products and solutions for companies put under financial strain by the COVID-19 pandemic and participates in projects and initiatives designed to support both businesses and individuals.

- **Wider scope of de minimis guarantees**

Under annexes to the de minimis portfolio guarantee facility agreement executed with BGK as part of the National Guarantee Fund, the Bank has introduced special solutions for companies put in a difficult situation by the COVID-19 pandemic. The de minimis guarantee scheme is implemented as part of the government programme 'Support for Entrepreneurship Using Sureties and Guarantees of Bank Gospodarstwa Krajowego'. The de minimis guarantees serve to improve access to financing for SMEs and are a means of providing generally available guarantees to support the development of enterprises. De minimis aid is a form of state aid permitted by EU legislation.

Detailed solutions:

- if the guarantee is provided for a credit facility or the amount of a credit facility secured with the guarantee is increased between March 20th 2020 and June 30th 2021, the amount of a single credit facility repayment guarantee may not be higher than 80% of the credit facility amount;
- if a working capital facility is guaranteed or the repayment date of a guaranteed working capital facility is extended in the period from March 20th 2020 to June 30th 2021, the guarantee is granted for a period of up to 75 months;
- the possibility of providing the guarantee for investment credit facilities for up to 120 months;
- increasing the guarantee amount from PLN 3.5m to the maximum amount permitted by the EU regulations on de minimis aid, i.e. EUR 1.5m
- the possibility of providing the guarantee also for foreign currency credit facilities,
- waiver of the fee for issuing a guarantee by June 30th 2021.

- **Wider scope of Biznesmax Guarantee from the Guarantee Fund of the Smart Growth Operational Programme**

The Biznesmax Guarantee has been offered by BOŚ S.A. in cooperation with BGK since 2017. Its scope has been extended to increase access to day-to-day financing and enable SMEs to continue growing their business.

The guarantee is provided free of charge and secures up to 80% of the amount of a credit facility financing innovative projects and projects with environmental impact in the SME sector. The duration of the guarantee may not exceed 20 years. The beneficiaries of the guarantee may obtain interest subsidies for up to three years. The subsidy is provided by refunding interest paid.

In April, July and December 2020, the Bank signed annexes amending the Businessmax Guarantee.

Detailed solutions:

- the possibility of issuing a guarantee representing de minimis aid for revolving working capital facilities, including revolving overdraft facilities (thus the revolving facility will no longer be disbursed on the basis of financial and accounting documents and documenting expenditure rests with the client only),
- the revolving working capital facility is extended for up to 39 months,
- in the case of a guarantee representing de minimis aid, the list of eligible costs does not apply any longer and the obligation for the Borrower to submit an investment project plan, attached as an appendix to the BGK agreement, has been abolished. In addition, as part of borrower assessment, the following additional criterion was introduced: "In the last five years I/we have carried out an environmentally-friendly project with an environmental effect". As a result, environmentally efficient companies have the opportunity to obtain a guarantee for a revolving working capital facility,
- the possibility of providing a guarantee representing de minimis aid for a non-revolving working capital facility not related to the investment project, which facility, together with the overdraft facility, is referred to as a "liquidity facility for the duration of the COVID-19 pandemic",
- the possibility of providing the guarantee for a liquidity facility for the duration of the COVID-19 pandemic in the case of a revolving credit facility and extending the facility for another period or increasing the facility amount, provided that the terms of the credit facility agreement are amended to reflect the Bank's acceptance of security in the form of a guarantee,
- the possibility of providing the guarantee for a loan, provided that it meets the terms of a credit facility for which the guarantee may be provided and is granted on the same rules – as regards assessment of the borrower's ability to repay liabilities – as those applied by the Bank when granting credit facilities for the same purposes, and the loan agreement has all the essential features of a credit facility agreement,
- extension of the effective period of the 5% annual rate applied to calculate credit interest subsidy until December 31st 2021; the subsidies also apply to revolving credit facilities.

- **Portfolio Guarantee Facility from the Liquidity Guarantee Fund (PGF LGF).**

Under the agreement on a portfolio guarantee facility from the Liquidity Guarantee Fund, signed in April 2020 with BGK, the Bank added to its offering a Liquidity Guarantee for medium and large enterprises. In December 2020, it signed Annex 3, which maintained the terms of the liquidity guarantee and extended its duration until June 30th 2021. The Fund is part of the Government Anti-Crisis Shield. The guarantee is provided as credit facility security to ensure financial liquidity and may be issued for both new credit facilities and revolving overdraft and credit facilities, including those for which credit facility agreements were concluded not earlier than on March 1st 2020.

Key parameters of the liquidity guarantee:

- guarantee coverage ratio – up to 80%,
- guarantee amount – up to PLN 200m,
- the total amount of credit facility for an entrepreneur with security from the Liquidity Guarantee Fund – up to PLN 250m,
- guarantee period – up to 27 months and not more than the term of the credit facility plus 3 months,
- the guarantee is available until June 30th 2021,
- the client is charged a commission fee for the guarantee, due to BGK; the guarantee may also be provided for foreign currency credit facilities,
- a credit facility with the BGK guarantee may be used to repay another credit facility.

In August 2020, the Bank executed Annex 1 to the Agreement, which introduced the following amendments:

- the possibility of providing the guarantee for syndicated credit facilities;
- adding an annex to the guarantee application – “Form for providing information to be given when applying for public aid related to the prevention, counteracting and combating of COVID-19 pandemic and its effects”, consistent with the form prepared by the Office of Competition and Consumer Protection;
- execution of a memorandum to the agreement, setting out the terms of cooperation between BGK and BOŚ S.A. with respect to the provision of a repayment guarantee for a credit facility granted by the Bank as part of syndicated financing.

- **Amendments to the COSME Guarantee**

The COSME guarantee is another guarantee offered by the Bank to SME clients under a cooperation agreement with BGK.

In September and December 2020, Annexes 11 and 12 were signed to the agreement on a portfolio guarantee facility with a counter-guarantee provided by the EIF under COSME Programme No. 6/PLG-COSME/2015 of October 23rd 2015 to the Agreement setting out the terms of cooperation between BGK and BOŚ S.A. as regards providing the COSME Guarantee for credit facilities advanced by the Bank.

The amendments introduced by the Annexes concern mainly:

- extension from 27 to 39 months of the term of the guarantee for working capital facilities granted or to be granted in the period April 6th 2020 – June 30th 2021;
- the possibility of extending the maximum rollover period for a revolving credit facility from five to nine years;
- reduction to 0.7% of the guarantee fee for the above working capital facilities in the period April 6th 2020 – June 30th 2021;
- introduction of extended restructuring periods for credit facilities with the COSME guarantee.

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- **Amendments to the Creative Europe Guarantee**

BGK's Creative Europe Guarantee is intended for the cultural and creative sector. Under Annex 3 to the agreement on a portfolio guarantee facility with a counter-guarantee provided by the European Investment Fund under Creative Europe Programme No. 5/PLG - Creative Europe/2019 (as amended) BGK reduced the commission fee payable under the guarantee in the period January 1st 2021 – June 30th 2021 to 0%.

- **Factoring Portfolio Guarantee Facility from the Liquidity Guarantee Fund (FPGF LGF)**

In 2020, BOŚ S.A. expanded the offering of BGK portfolio guarantees by including a factoring guarantee under the Liquidity Guarantee Fund (FPGF LGF). The guarantee was introduced following the execution of factoring portfolio guarantee facility agreement no. 14/LGF-FGP/2020 with BGK on October 22nd 2020 under the Liquidity Guarantee Fund.

The Liquidity Guarantee Fund is part of the governmental "Anti-Crisis Shield".

The FPGF LGF guarantee is intended for SMEs and large enterprises affected by the COVID-19 pandemic to provide liquidity irrespective of the industry they operate in.

Key terms of the FPGF LGF Guarantee:

- the guarantee can be used to secure a new and existing factoring limit for up to 80% of its value;
- the guarantee may be provided for both recourse and reverse factoring;
- the guarantee may be used to secure a factoring limit in PLN and foreign currency;
- the maximum guarantee term is 27 months;
- the aggregate amount of factoring limits secured with FPGF LGF guarantees, granted to one enterprise, may not exceed PLN 250m.

Guarantees under the Liquidity Guarantee Fund will be provided until June 30th 2021.

- **PFR Anti-Crisis Shield**

Under the agreement for the provision of services under the PFR Anti-Crisis Shield, signed with Polski Fundusz Rozwoju S.A. (PFR), the Bank enabled its clients to obtain funding under the assistance scheme launched by PFR as part of the Anti-Crisis Shield. The scheme was intended to businesses hit by the COVID-19 pandemic.

In line with the schedule adopted for the scheme, the time limit for submitting applications under the PFR Anti-Crisis Shield for grants for micro, small and medium-sized enterprises expired on July 31st 2020.

The Bank accepted grant applications from its clients until July 31st 2020, and the time limit for appealing against PFR decisions expired on September 30th 2020.

The Scheme Beneficiaries are required to provide the Bank, by January 31st 2021, with documents confirming the authorisation of persons submitting the applications under the governmental programme "Polish Development Fund's Financial Shield for Small and Medium-Sized Enterprises".

In November 2020, PFR presented the assumptions underlying Financial Shield 2.0, the objective of which is to provide financial assistance to businesses from 45 industries which had to reduce or suspend operations due to the epidemiological situation related to COVID-19. On January 14th 2021, BOŚ S.A. signed an agreement with PFR for the provision of services related to the process of PFR granting financial subsidies to businesses. The PFR Shield 2.0 Programme was launched on January 15th 2021. The Bank's clients were offered the possibility of applying for subsidies under the FINANCIAL SHIELD 2.0 aid scheme for businesses for the duration of the pandemic. The applications were made available in the BOŚBank24 and iBOŚ24 electronic banking systems.

- **Loans granted under Jessica and Jeremie facilities**

As a result of arrangements with the Fund Managers (Zachodniopomorska Agencja Rozwoju Regionalnego S.A., Marshal Office of the Province of Katowice, Pomorski Fundusz Rozwoju Sp. z o.o.), special solutions were introduced for borrowers under the Jessica and Jeremie facilities to mitigate the negative consequences of COVID-19, including:

- an option to take advantage of a six-month grace period in repayment of principal and a four-month grace period in repayment of principal and interest for clients of the Szczecin Business Centre using Jeremie and Jessica Zachodniopomorska loans and,
- obtaining individual consents from the Marshal Office of the Province of Katowice to extend loan repayment for the clients of the Bank's Business Centre of Katowice who have been granted loans under the Jessica Śląska facility,
- the possibility of amending agreements for the clients of Gdańsk Business Centre using the Jessica Pomorska loans, in accordance with the Annex signed with PFR Sp. z o.o.

- **Credit facility for technological innovation**

Bank Ochrony Środowiska S.A. is one of the banks providing technology credit facilities under the Smart Growth Operational Programme Sub-Measure 3.2.2 Technology Innovation Credit. The facility may be used for technological investment projects by businesses operating in the Republic of Poland. What distinguishes the credit facility is financial support in the form of a technological bonus.

On July 3rd 2020, an Annex to the cooperation agreement with BGK was signed. The main changes introduced by the Annex were as follows:

- removing the upper limit of the technological bonus. Previously, the amount of co-financing in the form of a technological bonus that a company could obtain to cover its capital expenditure was PLN 6m;
- the possibility of implementing business-wide innovations allowing the client to offer a new product or service;
- the list of eligible expenditure was extended;
- removal of the obligation to make an equity contribution and permitting financing of up to 100% of a project's eligible expenditure with the technology credit facility.

In connection with the changes made by BGK regarding the amount of equity contribution, for clients using a full reporting model and holding a rating not lower than 8 the Bank may finance up to 100% of the eligible expenditure for an investment project. Other clients must make an equity contribution of 10%.

- **Actions for the Bank's clients to contain the negative impact of the COVID-19 pandemic**

- allowing retail and business clients from all segments to suspend repayment of credit principal instalments (excluding exchange-traded loans) without providing additional documents;
- allowing retail clients to suspend the performance of the contract under Shield 4.0 (statutory holidays),
- not collecting from clients any fees and commissions for the activities performed by the Bank in connection with mitigating the negative consequences of the COVID-19 pandemic,
- applying a special procedure for servicing clients' credit facilities, loans, credit cards and factoring transactions at the Bank in connection with mitigating the negative consequences of the COVID-19 pandemic and granting the aid measures the status of a non-legislative moratorium within the meaning of Section 10 (a) of the Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, i.e. a non-legislative payment relief initiative of the Bank as part of a banking sector moratorium scheme agreed in collaboration the Polish Bank Association by its member banks. As part of the adopted solutions, the Bank enabled its clients to suspend payment of instalments for up to six months and offered them an option of automatic limit renewal in a simplified procedure for up to six months,

- with respect to credit cards – enabling clients to postpone the repayment of the minimum amount due by three months,
- introducing solutions for clients to handle urgent cases by electronic means in the BOŚBank24 and iBOSS24 electronic banking systems. Clients were informed, through the website and announcements, about the option to apply, among others, for suspension of repayment of loans and credit facility instalments,
- waiver of the right, in the first half of 2020, to apply the special measures applicable in the event of clients' failure to comply with covenants relating to the amount of cash received into accounts and achievement and/or maintenance of specific financial ratios,
- extension by three months, at the Client's request, of the deadline for submission of invoices or acceptance reports to confirm the execution of an investment project in accordance with its purpose, for the "Przejrzysta Pożyczka" (Transparent Loan) i "Energia ze słońca" (Solar Energy) products,
- permitting the provision of renewals of insurance policies securing the Bank's claims in the form of a copy not certified as true copy or in the form of a scanned document sent by email.
- increasing the contactless payment limit to PLN 100 for payment cards. Given the growing rate of COVID-19 infections, with clients' health in mind the Bank has enabled payment via payment terminals without having to enter the PIN code for transactions of up to PLN 100. The change requires adapting the equipment installed at shops and service points. The higher limit will be made available gradually at terminals where the operators have already increased the payment limit
- receiving from clients documents signed with a secure electronic signature.
- allowing a limited number of clients in bank outlets in accordance with the guidelines of the General Sanitary Inspector; separation of clients from the staff by means of transparent partitions; disposable gloves for clients; regular disinfection of ATMs.

Change in work organisation and support of employees in connection with the COVID-19 pandemic

The Bank took various measures to contain the impact of the pandemic on its operations while ensuring the highest possible safety standards. In particular:

- employees were allowed to work remotely from their homes; for some employees a shift work system was introduced; branch and Head Office employees who could work from home were provided with portable computer equipment and licences enabling such work. Each employee was granted access to an application enabling the organisation of and participation in online conference calls. None of the processes were disrupted despite switching to the remote work system. At the same time, additional strong authentication mechanisms were set up for all the Bank employees. The use of the MS Teams collaboration platform in the Bank's network was permitted, but without the file sharing functionality. VPN was launched as a second access channel to increase the number of simultaneous connections (it is possible to use the VPN connection by all the Bank employees simultaneously). VPN as the second access channel also ensures partial redundancy in the event of a failure. In addition, the use of employees' home Internet connections for remote work was permitted. The Bank increased the basic data transmission packages on employees' business telephones to 12GB per month and allowed top-ups of 10 GB per month. Ultimately, all Bank employees will have mobile telephones with access to e-mail,
- employees who could not work remotely were enabled to maintain a safe distance from each other;
- daily disinfection (including of the most important elements, such as buttons by and in the lifts, handrails in staircases, doorknobs, gates, etc.) was introduced, the Bank's Head Office and branches were disinfected using ozone generators and dry-fogging,
- disinfectant mats were purchased and placed before the entry gates to the Bank. The mats are placed in such a way that when employees approach the metering equipment they must walk on the mats thus disinfecting their footwear.
- blends and disposable gloves were provided for direct client service desks and stands,
- contactless thermometers for measuring body temperature were purchased and devices for automatic measurement of body temperature of persons entering the Bank's premises were installed,
- masks certified for safety in accordance with a Minister of Health's regulation were purchased for employees. The masks were provided to all Bank employees, together with instructions on their use;

- to mitigate the risk of coronavirus infection, OHS instructions were drawn up and provided to all employees by displaying them in areas available to the general public and on the Bank's intranet website,
- in order to support employees in monitoring the development of the Bank's and Clients' business environment, all Bank employees keep receiving daily reports containing current information about economy and individual industries in the context of COVID-19.
- a hotline for the Bank employees was launched to keep them informed about the rules of implementation at the Bank of the Act on Special Solutions Related to Prevention, Counteracting and Combating of COVID-19, Other Infectious Diseases and Emergencies Caused by them and Certain Other Acts, dated March 2nd 2020.
- employees were offered an opportunity to get vaccinated against flu in order to improve their immunity and – once the symptoms of flu subside – to increase the likelihood of quicker detection of COVID-19 symptoms.

Increased business activity in the Bank's electronic distribution channels

The Bank increased the Call Centre's capacity by redirecting a selected group of subjects – requests for credit holidays – to an external call centre. An application enabling Call Center employees to work remotely and the handling of additional connections by the system was also implemented.

As the COVID-19 pandemic has led to increased interest among the Bank's clients in remote distribution channels, the Bank seeks to ensure supreme service quality in these channels:

- total increase in received calls (retail and institutional clients) in 2020 relative to 2019: 35%,
- total increase in the number of electronic banking messages handled within 24 hours (retail clients): 23%,
- total increase in electronic requests/inquiries from clients (contact form, bos@bosbank.pl mailbox) in 2020 relative to 2019: 97%

Measures implemented by the Bank at the Call Center to ensure its uninterrupted operation and increase capacity:

- enabling all employees to work from home,
- maximum reduction of work at the Call Centre,
- filling vacancies caused by employee turnover (remote recruitment).

In order to ensure the safety of Call Center employees, they were provided with masks, shields, gloves and disinfectants for desks. In addition, employees within the Call Center area were reseated to maintain appropriate distance between them and the area was shut off from employees working in other parts of the building.

Charitable activities

- In April 2020, through the Aid to the Church in Need Pontifical Association, the Bank provided hospices, care and treatment facilities and hospitals all over Poland with personal protective equipment to fight against COVID-19 pandemic. Seven pallets of disinfectant fluids (3,780 litres) and 2.2 thousand high quality protective masks were purchased as part of the initiative. The value of the aid is PLN 150,000, VAT inclusive. Also Dom Maklerski BOŚ purchased 2.2 thousand masks.
- In December 2020, the Bank provided financial support to the Polish Welfare Committee for the purchase of personal hygiene products and cleaning products for the homeless under the care of the Aid Centre in the Siekierki district of Warsaw.
- In December 2020, the Bank financed the purchase of Christmas gifts for those in need as part of a campaign organised by the SOS Food Bank.
- At the beginning of 2021, the Bank donated 450,000 surgical masks to two hospitals in the Bydgoszcz Province as part of a campaign coordinated by the Ministry of State Assets.

3. Significant events in 2020

Distinctions and awards in 2020

- In January 2020, for the third time in a row Łukasz Tarnawa and Aleksandra Świątkowska, economists of Bank Ochrony Środowiska S.A., won the competition organised by the *Parkiet Gazeta Giełdy i Inwestorów* daily for the best forecasts of macroeconomic and market indicators in 2019, an achievement is without precedent in the history of the competition. The *Parkiet* ranking is the most prestigious competition for economists and analysts of Polish financial institutions. Organised since 2005, it is based on assessments of accuracy of monthly forecasts of key macroeconomic variables (GDP, inflation rate, production, retail sales, unemployment rate, etc.) and market indicators (PLN exchange rates, yield on treasury bonds and NBP interest rates). More than 20 research teams from Polish and foreign financial institutions participate in the *Parkiet* competition,
- In January and February 2020, the EKOllokata Plus deposit product offered by BOŚ reached one of the top places in the ranking of 12-month deposit products for up to PLN 10,000 with additional terms and conditions, organised by Bankier.pl,
- In March 2020, Bank Ochrony Środowiska S.A. was awarded in the Financial Brand of the Year contest organised the *Gazeta Finansowa* weekly. It was also included in the list of 100 largest financial institutions in Poland. The list is based on the results of financial market players: banks, insurers, leasing companies, factoring companies, brokerage houses and other companies operating on the broad financial market,
- On March 24th 2020, just after the announcement of the Monetary Policy Council's decision to cut interest rates, the EKOllokata Plus deposit product offered by BOŚ reached one of the top places in the ranking of 12-month deposit products for up to PLN 10,000 with additional terms and conditions, organised by Bankier.pl,
- In February 2020, in the 17th Nationwide Investor Survey carried out by the Polish Association of Retail Investors, Dom Maklerski BOŚ was voted the Best Brokerage House of 2019 by investors. More than 2,600 investors participated in the survey,
- In March 2020, Dom Maklerski BOŚ was recognised as the Best Brokerage House of 2019 by the *Gazeta Giełda Parkiet* daily and presented with the 'Bull and Bear' award in the category of the Brokerage House of the Year,
- Dom Maklerski BOŚ received the Capital Market Leader statuette for the highest activity on the futures market in 2019 and the Platinum MegaWatt statuette for the highest activity on the white certificate market in 2019 from the Polish Power Exchange.
- Dom Maklerski BOŚ was named the Financial Brand of the Year in the Brokerage House category for its 25 years' contribution to the development of the capital market in Poland in recognition of its insight into client needs, exceeding their expectations and build confidence in the market by creating understandable, clear and client-friendly mechanisms,
- The *Home&Market* monthly awarded Dom Maklerski BOŚ with the Financial Order for 2019 for IKE individual pension accounts and IKZE individual pension security accounts as part of a brokerage account in the Investment Credit Facility category.
- In April, the EKOllokata Plus deposit product offered by the Bank took the first place in the ranking of 12-month deposit products for up to PLN 10,000 with additional terms and conditions, organised by Bankier.pl.
- In May 2020, the Judging Panel of the 13th Nationwide Corporate Social Responsibility Leaders Programme announced the Bank as the winner of the Eko Firma 2020 Programme. The Judging Panel recognised and awarded by the Bank for activities related to the implementation of CSR principles. It appreciated the focus on environmental values, pursuit of environmental information campaigns, paying attention to sustainable development, and support for community outreach initiatives.
- On June 9th 2020, the Bank was awarded the White CSR Leaf by the *Polityka* weekly. It is awarded to companies that commit to the implementation of the most important management categories recommended by the ISO 26000 standard and enhance their efforts in this area in order to effectively manage their community impact.
- On June 10th 2020, the "Otwarcie na przyszłość" (Open to the Future) loan offered by the Bank topped the ranking of the best cash loans organised by the rankomat.pl comparison website.

- On June 16th 2020, the Bank was named the best commercial bank in the small and medium bank category, in a competition organised by the *Gazeta Bankowa* monthly. The editors awarded and indicated the industry leaders who are successful in an increasingly difficult market.
- On June 19th 2020, the mortgage loan offered by BOŚ won the first place in the ranking of mortgage loans with a 30% equity contribution, prepared by money.pl.
- In July 2020, the Ekolokata deposit product was one of best three deposit products in a six-month deposit ranking prepared by bankier.pl,
- In September 2020, the Ekonto Oszczędnościowe 500+ account offered by BOŚ won the first place in bankier.pl's list of the best savings accounts for PLN 50 thousand and PLN 200 thousand.

BOŚ S.A.'s rating affirmed

On April 14th 2020, Fitch Ratings Ltd (the Agency) affirmed the Bank's ratings, revised the outlook from Stable to Negative, and downgraded the subordinated bond rating from BB+ to BB. On November 4th 2020, Fitch Ratings Ltd (the Agency) affirmed the Bank's ratings and maintained the outlook.

The ratings are presented below:

- Long-term Foreign Currency IDR was affirmed at 'BB-', with the outlook changed from stable to negative,
- Short-term Foreign Currency IDR was affirmed at 'B',
- National Long-term Rating was affirmed at BBB-(pol), with the outlook changed from stable to negative,
- The National Short-term Rating was maintained at 'F3(pol)',
- The Support Rating was maintained at '4',
- The Support Rating Floor was maintained at 'B',
- The Viability Rating was affirmed at 'bb-',
- The national senior unsecured bond rating was affirmed at 'BBB- (pol)',
- The national short-term senior unsecured bond rating was affirmed at 'F3 (pol)',
- The subordinated bond rating was downgraded from 'BB+(pol)' to 'BB' (pol).

In its report of November 4th 2020, the Agency announced that the affirmation of the Bank's ratings reflects the Agency's view that the Bank has a moderate buffer to cover potential losses resulting from the economic downturn caused by the pandemic. The negative outlook was maintained as the Agency believes that the rating may be downgraded in the future if the economic downturn is deeper or more prolonged than expect.

For information on the rating decisions by Fitch Ratings, see Current Reports No. 7/2020 and No. 34/2020.

Effect of the Minister of Finance's decision to repeal the systemic risk buffer regulation

The Minister of Finance's decision of March 18th 2020 to repeal the systemic risk buffer regulation (rescinding of the Minister of Finance's systemic risk buffer regulation of September 1st 2017) will reduce the Bank's minimum separate and consolidated capital requirements by 3pp, i.e.:

- on a separate basis: a drop from 14.01% to 11.01% for TCR, and a drop from 11.88% to 8.88% for Tier 1 capital ratio,
- on a consolidated basis: a drop from 14.00% to 11.00% for TCR, and a drop from 11.87% to 8.87% for Tier 1 capital ratio.

As a result, the excess of capital ratios above the regulatory minimum levels is as follows:

- on a separate basis: 3.97% (ca. PLN 560m) for TCR, and 4.29% (ca. PLN 605m) for Tier 1 capital ratio,
- on a consolidated basis: 3.86% (ca. PLN 557m) for TCR, and 4.22% (ca. PLN 609m) for Tier 1 capital ratio.

The purpose of unlocking the systemic buffer by the Minister of Finance is to release additional capital that may be used to bolster the economy (in line with the Financial Stability Committee's recommendation, the released funds should be used as loans for the economy and to cover losses in the coming quarters). In the case of the Bank, unlocking the systemic buffer will release approximately PLN 423m.

PFSA – administrative proceedings concerning an administrative penalty

In late July and early August 2018, the PFSA carried out an inspection concerning fulfilment of the Bank's obligations related to the prevention of money laundering and the financing of terrorism. After the inspection, the PFSA issued post-inspection recommendations and instigated ex officio proceedings to impose an administrative penalty, following which the Bank was fined PLN 1.2m. The administrative decision is not final and Bank Ochrony Środowiska S.A. has filed a request for re-examination. The BOŚ Group recognised a provision for the amount of the fine.

GIFI – administrative proceedings concerning an administrative penalty

In March 2019, the General Inspector of Financial Information (GIFI) carried out an inspection concerning fulfilment of the Bank's obligations related to the prevention of money laundering and the financing of terrorism. Following the inspection, the Bank received a positive assessment with an indication of irregularities. The GIFI instigated ex officio proceedings to impose an administrative penalty, following which the Bank was fined PLN 4.5m. The Bank appealed against GIFI's decision to the Minister of Finance, who in December 2020 issued a decision revoking in whole GIFI's decision to impose a fine of PLN 4.5m, appealed against by the Bank, and decided to impose a fine of PLN 3.7m. The Bank filed an appeal against the Minister's decision with the Provincial Administrative Court.

PFSA's recommendation concerning additional capital requirement for BOŚ S.A. at the consolidated level

On December 22nd 2020 (Current Report No. 42/2020), the Bank received from the Polish Financial Supervision Authority a recommendation to comply with an additional requirement concerning own funds above the amount following from the requirements calculated in accordance with the detailed rules laid down in Regulation (EU) No 575/2013 of the European Parliament and of the Council by maintaining consolidated own funds to cover additional capital requirements to hedge against the risk arising from mortgage-backed foreign currency credit facilities and loans to households at the level of 0.50 pp above the total capital ratio referred to in Article 92 (1) letter c) of Regulation (EU) No 575/2013 of the European Parliament and of the Council, which should be composed of, at least, 75% of Tier 1 capital (which corresponds to the capital requirement of 0.37 pp above the value of Tier 1 capital ratio referred to in Article 92 (1) letter b) of Regulation No 575/2013) and of at least 56% of the common equity Tier 1 capital (which corresponds to the capital requirement at the level of 0.28 pp above the common equity Tier 1 capital ratio referred to in Article 92 (1) letter a) of Regulation (EU) No 575/2013 of the European Parliament and of the Council).

Previously, the Bank maintained consolidated own funds to cover additional capital requirements to hedge against the risk arising from mortgage-backed foreign currency credit facilities and loans to households at the level of 0.52 pp above the TCR ratio referred to in Article 92 (1) letter c) of Regulation (EU) No 575/2013 of the European Parliament and of the Council. For details, see Current Report No. 16/2019 of November 13th 2019.

Calculation of minimum requirement for own funds and eligible liabilities (MREL)

On December 15th 2020, the Bank received from the Bank Guarantee Fund ("BFG") a letter informing the Bank about the new designated MREL level, based on the Bank's financial data as at December 31st 2019 (Current Report No. 39/2020).

The target MREL for the Bank based on separate data is 12.87% of total liabilities and own funds (MREL to TLOF), which corresponds to 16.27% (MREL to TRE) of total risk exposure. In the same letter, a path was mapped for MREL to reach 10.80% and 11.83% of total liabilities and own funds on December 31st 2021 and December 31st 2022, respectively (which corresponds to 13.65% and 14.96% of total risk exposure, respectively).

The target MREL for the Bank based on consolidated data is 13.16% of total liabilities and own funds (MREL to TLOF), which corresponds to 16.23% (MREL to TRE) of total risk exposure. In the same letter, a path was mapped for MREL to reach 11.04% and 12.10% of total liabilities and own funds on December 31st 2021 and December 31st 2022, respectively (which corresponds to 13.63% and 14.93% of total risk exposure, respectively).

The Bank is required to meet the MREL targets as of January 1st 2024. The BFG informed the Bank that in the next planning cycle MREL will be determined using a new methodology related to the adopted Banking Package which incorporates amendments to the BRRD, CRD IV and of the CRR Regulation.

4. Main products, services and business areas

4.1. Banking products and share in the banking sector

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

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

The share of BOŚ S.A. in the commercial banking sector as at the end of the I half of 2020 (based on data published by Polish Financial Supervision Authority relating to the banking sector with foreign branches) was equal to:

- 0.9% of total assets,
- 1.2% of non-financial sector deposits,
- 0.9% of bank borrowings and other debt instruments.

The above shares did not change relative to the end of 2019.

Segment of institutional clients

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

In 2020, in the area of settlement products, in order to mitigate the negative effects of the COVID-19 pandemic, the Bank consistently expanded the option to fulfil instructions placed remotely.

In December 2020, a separate offering of bank accounts for Bank Ochrony Środowiska S.A.'s institutional clients who are sole traders was also prepared, in the performance of the requirements of the Act Amending Certain Acts to Reduce Regulatory Burdens of July 31st 2019 (the "Act on Regulatory Burden Reduction"), which instituted an Entrepreneur-Consumer. The new offering of accounts for sole traders was introduced on January 1st 2021.

In 2020, in the area of settlement products:

- work was completed on aligning the Bank's operations with the Act Amending the Act on Exchange of Tax Information with Other Countries and Certain Other Acts of April 4th 2019, related, among others, to collecting CRS declarations from Clients for the period January 1st 2016 - April 30th 2017,
- the efforts planned to be taken focus on expanding the option to execute Clients' instructions placed remotely, including in particular through electronic media, in the area of accounts and settlement products in order to mitigate the negative effects of the COVID-19 pandemic,
- due to conditions prevailing on the market (the level of interest rates and activities of other banks), a fee was introduced for maintaining a high balance of funds denominated in PLN and EUR on corporate Clients' accounts and term deposits,
- due to the changing market situation with respect to deposits, the pandemic and the interest rate cuts made by the Monetary Policy Council, the Bank reduced the interest rate on deposits from institutional clients.
- the Express Elixir instant bank transfers were added to the Bank's offering,

- as of November 12th 2020, the Bank offered its clients new ways of making online card payments. Since that date, payments can be made using mobile authentication.
- as of December 18th 2020, all the existing and new debit and credit card users, both retail and corporate, were given the opportunity to add their card to GPay in their telephones and make payments using this method.

With respect to loan products in 2020:

- The Bank offered its clients loans for thermal insulation and renovation projects with a bonus from the Thermal Insulation and Renovation Fund. The terms and conditions of the loan offering were aligned with the amended Act on Supporting Thermal Insulation and Renovation Projects. The method of calculating the thermal insulation bonus was simplified and a higher bonus was offered to investors who install renewable energy systems as part of their thermal insulation projects. Additional support was also provided to investors who perform reinforcement of insulated solid walls in prefabricated buildings and the renovation bonus was made available to all owners or administrators of multifamily buildings placed in service before August 14th 1961.
- in selected provinces, the Bank offers preferential loans for environmentally-friendly projects in cooperation with the Provincial Funds for Environmental Protection and Water Management. In 2020, the Bank commenced cooperation with respect to financing with the Gdańsk Provincial Fund for Environmental Protection and Water Management.
- The Bank took steps to optimise and automate the lending process at its individual stages: client acquisition, assessment of credit application, credit decision-making, disbursement of funds, or credit monitoring and administration. The project covered deployment of a tool to support the assessment process and development of rating systems taking into account the nature of environmentally-friendly products.
- products for institutional clients were modified through:
 - alteration of the parameters of the multi-purpose credit facility so as to cover it with the *de minimis* guarantee and the BGK guarantee,
 - introduction of a purchase loan for SMEs, which can be used for environmental purposes,
 - modification of the process of granting financing for PV farms with a capacity of up to 1MW with support in the auction system,
 - offering micro-enterprises (sole traders) “a loan to improve liquidity of micro-enterprises in CCPM”,
 - given the COVID-19 pandemic, the Bank extended the option to suspend the repayment of credit principal instalments (excluding exchange-traded loans) without having to provide additional documents – a special procedure for handling COVID-19 loans and credit facilities,
 - in connection with the entry into force, on January 1st 2021, of new provisions set out in Art. 385⁵ of the Civil Code, which extends civil law protection to sole traders (who keep their books of account based on the full and simplified accounting model), the Bank took steps to define the client groups affected by the amendment and to define regulations applicable to: the fee and commission tariff, interest rate table for cash deposits, Interest Rate Rules, templates of credit facility agreements, cut-off time announcement, template of the request to open and maintain a bank account, template of a bank account agreement, template of a sealed cash collection agreement.

Local government units

The Bank cooperates with local government units. It offers comprehensive banking services for their budgets to enable effective management of funds. Services for local government units are provided on the basis of the Public Procurement Law.

Clients from the public finance segment have access to all standard deposit and lending products included in the Bank’s offering. Products intended to finance environmental projects (preference and commercial credit facilities), credit facilities offered by foreign banks to fund environmental protection and infrastructural investments, and the European Offer – a package of products for entrepreneurs, local governments and municipal companies, hold a special place within the Bank’s offering.

In May 2020, the Bank introduced new terms and conditions of offering credit facilities for thermal insulation and renovation projects with a bonus from the Thermal Insulation and Renovation Fund. As regards projects

carried out in municipal buildings, including listed buildings, where the investor is a municipality or a commercial-law company owned by the municipality, local government units may apply for, among others, a higher renovation bonus of 50% or even 60% of the costs of a renovation project.

Factoring

To handle factoring transactions the Bank has in place BOŚ Faktor, a dedicated online system enabling clients to fully control their receivables and contact the Bank on a 24/7 basis. The system is used for automated handling of factoring transactions.

As at the end of 2020, the value of turnover under factoring transactions at BOŚ was PLN 3.3bn. In 2020, BOŚ S.A. provided factoring services to 87 clients, with 7.8 thousand trading partners, and purchased 59.9 thousand invoices.

Retail clients

The Bank's retail offering includes all basic products and services available on the Polish banking market (bank accounts, settlement products, payment cards, products and services for investing cash surpluses, electronic banking services and lending products) as well as a broad range of environmental products to finance environmentally-friendly solutions, and provision of services to VIPs by dedicated account managers.

In June 2020, Express Elixir instant bank transfers were added to the offering of accounts.

In July 2020, the Bank launched a new edition of debit cards with the images of protected animal species. The purpose of launching the new cards is to boost sales of accounts dedicated to retail clients by enhancing the competitiveness of the Bank's card offering. The project also seeks to build the Bank's image as an entity actively involved in environmental protection initiatives. With the new card offering, the Bank wants to draw clients' attention to endangered species of wild animals in Poland and the related environmental protection issues. In October 2020, the Bank and the Polesie National Park signed an agreement providing for financial support to the Animal Rehabilitation Centre located within the Park. This will allow the Bank to communicate that a part of the charge for taking out the cards will be allocated for animal protection. The initiative strives to build a community of clients supporting the rescue of endangered species. The new debit cards feature images of various animal species that are subject to full protection in Poland. In addition, the cards have a modern graphic design to appeal to various client groups. The Bank intends to issue 5,000 cards in this edition.

As of November 12th 2020, the Bank also enabled its clients to use new methods of making online card payments. Since that date, payments can be made with mobile authentication available in an app. When using an online store, a card user can confirm operations through mobile authentication (push notifications).

A new payment card functionality was launched to allow payments to be made using the telephone. As of December 18th 2020, all existing and new debit and credit card users are able to add their card to the GPay app in their telephones.

The Bank developed its offering of open-end investment funds with a view to diversifying the solutions available to clients, tailored to their investment needs and acceptable investment risk profile. 300 open-end investment funds were offered to the Bank's clients. The Bank also pursued its business goal of greater productization of clients and increased income from retail sales, in particular in the VIP sub-segment.

Efforts made by the Bank with regard to deposit products for retail clients were focused on:

- taking care to optimise deposit portfolio costs and adaptation of the costs to the changing market conditions on an ongoing basis,
- maintaining the deposit balance in line with the liquidity requirements of the Bank.

In terms of balance building, the key deposit products for retail clients were:

- current accounts, including personal accounts with the basic account “EKOkonto bez Kosztów”, and savings accounts with the new “EKOkonto Oszczędnościowe” in PLN,
- promotional deposits: “e-lokata na Plusie”, “EKOkokata na Dobry Początek”, “EKOkokata Zyskowna”, “EKOkokata Rentowna”, “EKOkokata Plus”, “EKOkokata na Lata”, and “EKOkokata 5 na 5”, with some of the deposits removed from the Bank’s offering in 2020 due to the changing market conditions,
- foreign currency term deposit: “EKOkokata z Frankiem” in CHF.

The Bank’s offering also included products designed to build lasting relations with clients.

The change in the market situation for deposit products caused by the pandemic was the reason behind cutting interest rates on deposits and savings accounts in 2020. The interest rate was reduced on standard and promotional deposits, both those still available and those being removed from the offering. Both standard and promotional interest rates on savings accounts were reduced, which helped reduce the Bank’s interest expense.

The Bank’s activity in savings and settlement accounts focused on maintaining a transparent offering by retaining the following savings and settlement accounts in the Bank’s offering: “EKOkonto bez Kosztów”, “EKOkonto VIP”, “EKOkonto PRP” and “EKOkonto oszczędnościowe” in three currencies: PLN, EUR and CHF.

To support the sale of credit products to retail clients, promotional campaigns were carried out for the Cash Loan:

- for any purpose:
 - “Otwarcia na przyszłość” (Open to the Future), launched on May 15th 2020 to support clients who have clearly-defined financial needs and want to obtain quick financing,
 - “Portfel zapasowy” (Reserve Wallet), launched on August 17th 2020 as a continuation of the idea of providing clients with medium-amount loans for any purpose,
- for environmental purposes:
 - “Nasza woda” (Our Water), launched on June 3rd 2020 to support projects intended to prevent and counteract the effects of drought. It is complementary to the “Moja Woda” (My Water) governmental programme and is the only loan product of this type certified with the Climate Leadership logo.
 - “Pełnym oddechem”, a partner offering dedicated to PGNiG’s existing and future clients, supporting them in replacing heating sources and other stop-smog initiatives. The offering was part of the Bank’s portfolio throughout 2020.
 - “Przejrzysta Pożyczka” (Transparent Loan), the Bank’s leading loan product to support environmental projects (EKOkonwestyjce) pursued by both commercial clients and those who are beneficiaries of the “Czyste Powietrze” (Clean Air) governmental programme. The loan was part of the Bank’s portfolio throughout 2020 (two pricings).

To increase the Bank’s involvement in the financing of renewable energy sources, the Bank launched, on promotional terms, the “Energia ze słońca” loan to finance PV projects. The product has been offered since February 3rd 2020 and its purpose is to finance the purchase and installation of PV systems. Since July 1st 2020, loans extended by the Bank can also be used to finance the construction of energy storage facilities and home charging stations. The Bank is one of the few institutions on the market to offer its retail clients loans for thermal insulation and renovation projects with a bonus from the Thermal Insulation and Renovation Fund. In selected provinces, the Bank offers environmental loans with the support of the Provincial Environmental Protection and Water Management Funds in the form of interest subsidies, preferential interest rates or grants.

The Bank offers mortgage loans to Large Family Card holders, who are exempted from the arrangement fee or 50% of the arrangement fee with the margin reduced by 0.1pp relative to the standard margin.

The preferential terms and conditions of the Bank’s offering addressed to the financial sector include a lower commission and margin compared with the standard mortgage loan offering. The offering is addressed to employees of:

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

Insurance products and additional services

The Bank constantly develops its bancassurance segment. In 2020, the Bank offered insurance products such as insurance for the assets financed with a loan, including insurance for environmental protection equipment and facilities, life and health insurance for borrowers, and insurance packages for payment card holders. BOŚ S.A. acts as an insurance agent for five insurance companies. To increase the safety and comfort of employees, all insurance training and licence examinations are held online.

Services that complement banking products and generate extra commission income for by the Bank include Mecenias Direct, a legal counsel service for personal account holders who receive professional legal assistance via email and telephone.

Environmental activities

Environmental credit facilities by client segment (by principal amount)

	(PLN '000)	December 31st 2020	December 31st 2019	Change in percentage points
Environmental credit facilities granted to institutional clients		4,245,699	4,144,327	2.5
Environmental credit facilities granted to individuals		414,726	304,260	36.3
ENVIRONMENTAL CREDIT FACILITIES		4,660,425	4,448,587	4.8

BOŚ S.A. developed its operations on the market of funding of environmental projects. The balance of environmental credit facilities as at December 31st 2020 amounted to PLN 4,660.4m. Credit facilities granted for activities supporting environmental protection and sustainable development account for 36.34% of the Bank's total loan portfolio (34.45% as the end of year 2019).

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

In 2020, the Bank's cooperation with the NFEPWM (the Bank's main shareholder) was focused on operational management of priority programmes implemented at the Bank in previous years (mainly the Prosumment programme), and on acquisition of new clients who have applied for or obtained direct support of the NFEPWM as a part of EU or domestic assistance programmes for environmental projects.

The Bank actively participates in the work on engaging the banking sector in the "Czyste Powietrze" ("Clean Air") programme, run by the NFEPWM, which is aimed at improving the quality of life and health of inhabitants of Poland through liquidation of air pollution. The forms of funding available under the new version of the programme include a grant for partial cancellation of a bank credit facility. The Bank's offer includes the "Transparent Loan", which provides preferential terms for financing of non-eligible costs of projects carried out under the Clean Air programme or bridge financing until the investor obtains a grant.

Under the agreement between the NFEPWM and the Polish Bank Association, working teams were set up, including the Agreement Team, which negotiated the draft agreement for the provision of grant funding, the scope of the Bank's activities and responsibilities, and the rules for accepting applications. On February 2nd 2021, the NFEPWM announced a call for banks interested in joining the Clean Air Programme. BOŚ S.A. decided to join in. The other teams, i.e. the IT Platform Team, Guarantee Programme Team, as well as Communications

and Training Team continue the work planned to be completed by the beginning of July 2021. The banks are to be finally included in supporting the Programme in the second half of 2021.

At the beginning of September, together with other banks BOŚ continued talks with the NFEPWM concerning the financing of electric vehicles. The work focuses primarily on developing a cooperation model, a template of cooperation agreement between the NFEPWM and the banks, as well as the criteria for project verification and responsibilities of each party.

The Bank also works with Provincial Environmental Protection Funds. As part of this cooperation, in 2020 it financed environmental projects, mainly related to air pollution control (including in particular the financing of solar panel systems and replacement of heat sources with environmentally friendly alternatives).

4.2. Brokerage business

2020 saw a significant increase in financial markets' volatility caused by the COVID-19 pandemic and concerns about the economies where temporary restrictions were put on the activities numerous business sectors. The negative market sentiment was particularly evident in the first months following the pandemic outbreak (February–March 2020). In the subsequent months, the market began to discount future economic recovery as news of vaccine development started to flow in. Year on year, favourable business climate prevailed among small-cap companies. The strongest index was sWIG80, which gained 33.6%. Large-caps and the most liquid companies showed worse performance. The WIG20 index declined by 7.7% year on year, while the broadest WIG index dropped by 1.4% in that period.

The persistently high market volatility increases interest in the capital market from retail investors seeking to achieve positive rates of return, with interest rates kept close to zero. In 2020, the volume of equities and futures traded on the WSE grew year on year by 55.3% and 58.2%, respectively. In 2020, the turnover generated by the clients of Dom Maklerski BOŚ on the equity market in session trades was higher compared with the market, having increased by 113.6% year on year. On the NewConnect market the turnover soared by 880.8% year on year, to a record high of PLN 4.8bn. The turnover generated by Dom Maklerski BOŚ was also higher on the futures market (+47.5% year on year).

In 2020, Dom Maklerski BOŚ consolidated its position on the WSE equities market. In this segment, the Company's share in session trades rose from 3.05% in 2019 to 4.20%. The Company maintained its leadership on the futures market, with a share of 19.82%. Dom Maklerski BOŚ ranked third among all brokerage houses in terms of market position on the NewConnect market, with a 16.14% share.

As at the end of 2020, the number of investment accounts maintained by Dom Maklerski BOŚ increased by 15.4 thousand, the best result in many years (in 2019, the number of open accounts increased by 3.5 thousand). In addition to new investors, the market saw the return of investors who already had open accounts, but who did not execute any transactions in recent years.

The issue of Allegro.eu S.A. shares worth PLN 9.2bn at the end of the third quarter of 2020 markedly bolstered the primary market. Similarly to 2019, in 2020 there were seven IPOs on the regulated market of the WSE. Dom Maklerski BOŚ was actively involved in the offerings on the primary market. In that period, the Company was a member of a distribution consortium for the IPOs of four companies: Games Operators S.A., Allegro.eu S.A., PCF Group and Dadelo S.A. Dom Maklerski BOŚ acted as the offering broker for the issue of Pure S.A. shares, carried out with a concurrent transfer of trading in those shares from NewConnect to the WSE. In addition, Dom Maklerski BOŚ carried out the rights issue of Series E shares in Polwax S.A. and the issue of Series H shares in Nanogroup S.A. It was also a member of a distribution consortium for the share offerings of Answear.com S.A. and Mo-Bruk S.A. Dom Maklerski BOŚ participated in corporate debt offerings of PCC Exol S.A. (C1 and C2 Series), PCC Rokita S.A. (GB Series) and Kruk S.A. (AK1 Series).

Dom Maklerski BOŚ worked with AgioFunds TFI in promoting the Polish market of investment certificates. In 2020, Dom Maklerski BOŚ was the offering broker of Beta ETF founders' certificates based on S&P 500 and NASDAQ 100 indices.

Dom Maklerski BOŚ was actively engaged in developing the market for financing environmental projects. In September, it signed an agreement with New Energy Investment Sp. z o.o., a wholly-owned subsidiary of Columbus Energy S.A., to issue green bonds with a total value of up to PLN 500m for the financing of renewable energy sources. The first bond issue under the programme, worth PLN 75m, was carried out in November 2019. In late December 2020, an agreement was signed with Columbus Energy S.A. for the issue of green bonds with a value of up to PLN 200m. Thus, Dom Maklerski BOŚ became one of the first entities in Poland to develop this innovative form of financing environmentally-friendly investment projects.

At the beginning of March 2019, the WSE Group launched a pilot agricultural commodity market as part of the Food Platform project. Dom Maklerski BOŚ was the first entity authorised to operate on the Agricultural and Food Commodities Market operated by the Polish Power Exchange and executed the first transaction on that market.

Despite the ongoing pandemic, Dom Maklerski BOŚ maintains full continuity of operations and supports all key processes. It has put in place a number of solutions to maintain business continuity and mitigate the epidemic risk, both for its employees and for clients visiting the outlets in person. A significant number of employees work from home. In response to the unprecedented epidemic situation, Dom Maklerski BOŚ has offered the option to open an investment account online. As of April 2nd 2020, clients can sign a brokerage account agreement online, without having to leave home.

The COVID-19 pandemic did not change the objectives, strategic focus or the liquidity risk management strategy. In the period January–December 2020, Dom Maklerski BOŚ neither received nor applied for any public aid under the government's anti-crisis shield.

5. Cooperation with foreign financial institutions in BOŚ S.A.

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

Lender	Loan amount	Available amount	Currency	Contract date	Principal repayment date
Council of Europe Development Bank, Paris	50,000	-	EUR*	March 17th 2008	Tranche 1 April 25th 2023 Tranches 2 and 3 October 25th 2023
European Investment Bank, Luxembourg	75,000	-	EUR	December 3rd 2009	tranche 1, 2 and 3 15-06-2021
Council of Europe Development Bank, Paris	50,000	-	EUR	March 8th 2010	Tranche 1 April 22nd 2025 Tranche 2 July 9th 2021 Tranche 3 December 15th 2021
European Investment Bank, Luxembourg	75,000	-	EUR	February 8th 2012	Tranche 2 March 15th 2021 Tranche 3 December 15th 2021
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
European Investment Bank, Luxembourg	75,000	-	EUR	March 5th 2015	Tranche 1 June 15th 2023 Tranche 2 December 15th 2023
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
TOTAL EUR	475,000				

6. Key capex projects

In 2020, capital expenditure of the BOŚ Group amounted to PLN 38.5m, including PLN 31.8m at the Bank.

In 2020, the Bank implemented 31 capex projects involving intangible assets, which followed from business, upgrade and growth initiatives as well as from the need to ensure the Bank's compliance with the legal and/or regulatory requirements of regulatory bodies.

The most significant business projects related to improvement of operational efficiency and maintaining the Bank's business continuity included:

- a project to deploy an IT system for supporting end-to-end lending processes for institutional and retail clients of the Bank – Stage 2. New lending processes and the 'instructions' functionality (pilot implementation) were implemented – NPK 2.0 project,
- the project to implement a system and services platform making it possible to adapt the card product range to client needs, requirements of the payment processing organisation and the legislative bodies. Implementation of the platform as proposed will make it possible to introduce changes in the Bank's product offer, including introduction of solutions that generate additional revenues/savings for the Bank – the Cards Project,

- a project to develop a modern, functional and technologically advanced website of the Bank – Stage 2 involving the implementation of the PV calculator and further development of the Bank's website, including sales capabilities – the WWW 2.0 Project,
- a project to offer a payment card for retail clients and to execute mobile transactions using a mobile phone – the GPay Project.
- a project to enable the Bank's clients to execute mobile transactions using the functionality provided by Polski Standard Płatności (Polish Payment Standard) under the BLIK system – the BLIK Project.

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

- Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC along with the related detailed guidelines specified in the RTS documents in accordance with its transposition into Polish implementing regulations – the BE+PSD2 Project,
- The Act Amending the Act on Tax Legislation and Certain Other Acts of July 5th 2018 concerning the reporting of client, account and transaction data from the Bank's systems to the ICT System of the Clearing House (STIR), and handling requests from the Head of the National Revenue Administration concerning the provision of IP addresses from which users logged in to online banking systems – the STIR Project.
- Regulation of the Minister of Finance, Investment and Development of October 15th 2019 on changes in the registration and reporting of new data in VAT records – the JPK-VDK Project.

A major challenge in 2020 was the RELOCATION project to relocate the Main Data Processing Centre (MDPC), completed successfully.

In 2020, the capital expenditure at Dom Maklerski BOŚ amounted to PLN 6.4m

and was incurred mainly on the development of electronic channels, including in particular information systems for clients and the ICT infrastructure to ensure a high standard of client service both on the financial instruments market and the commodities market, as well as adaptation to changes in infrastructure systems on the markets where Dom Maklerski BOŚ operates. The expenditure was financed with the Company's own funds.

The Group's capital expenditure in 2021 is expected to be similar to that incurred in previous years. It will be financed with the Group's own funds. The size of the planned capex spending reflects the Group's capabilities in this respect.

Investing in human resources – training

The focus was placed on developing business competences, supporting the Bank's transformation and delivery of strategic objectives, with due regard given to ecology, environmental protection, and bringing processes to in line with external regulatory requirements.

On-site training courses were attended by 693 participants (1,070 man-days), including 625 participants of group training and 68 participants of face-to-face training courses.

Online training courses were attended by 3,303 participants (3,900 man-days), including 3,221 participants of group training and 82 participants of face-to-face training courses.

The reason behind the reduced on-site training activity was the pandemic outbreak and the related restrictions, including the ban on gathering, which completely eliminated the possibility of organising on-site training sessions.

The participants were given the opportunity to enhance their skills as part of:

- sales network training: systems, applications, banking products and processes, standards of sale and Client Service Quality, security policy at the bank, electronic banking, foreign currency and Polish złoty courses for cashiers, etc.,
- risk management training: rules for monitoring and valuation of collateral for credit transactions at BOŚ S.A. – workshops, operational risk management, negotiation strategies and techniques for debt collection, measurement of interest rate risk in the banking book as required by the EBA, etc.
- security training: cybersecurity management, cooperation between the police and banking sector in crime prevention, PSD2 and security,
- IT training: a course for Linux Administrators, DevOps Fundamentals, Python Developer, Databases, SQL – a language to access data in an Oracle database, Access, Excel – VBA programming;
- managerial skill development training: effective recruitment for managers, remote staff management, prevention of mobbing and discrimination at work, etc.
- development training for employees: Well Stress workshops, building resilience to stress, professional sales negotiations, etc.

1,141 participants used the e-learning training library, but since some of them attended several or more training courses the e-learning training library was used by a total of 5,182 participants.

The training subjects were mainly related to the knowledge of:

- anti-money laundering and combating the financing of terrorism (AML/CFT) to the extent required by applicable laws, in particular identification and verification of the beneficial owner and proper use of Dow Jones resources,
- competences defined in the annex to the Act on Insurance Distribution (IDD), ensuring compliance with the requirement for each agent or individual performing agency tasks to receive 15 hours of professional training per year,
- cyber-security,
- employees' environmental knowledge (the BOŚmy Zieloni Project),
- products for retail clients, i.e. bank accounts (including the Basic Payment Account), cash loans, deposits, mortgage loans, including the environmental offering,
- products for institutional clients, including settlement products, factoring, bonds, guarantee instruments, treasury bonds, loan products, including the environmental offering,
- guarantee instruments providing better access to financing for SMEs,
- the Bank's role as an Investment Firm's agent, and issues relating to the offering of investment products (compliance with the MIFID II Directive and ESMA Guidelines),
- internal standards of quality of services, sales process and internal cooperation,
- procedures and information concerning security and personal data protection in the organization, as well as legal requirements according to the GDPR,
- operating risk issues, such as the fundamental principles of physical security of cash, cash and cashless transactions, complaint handling (including notifications concerning unauthorised payment transactions), the quality of data transferred to external databases and applications for reporting of operating risk incidents, Def3000 system, using a new cash management application (AZG) and BackOffice24,
- bank ethics,
- counteracting mobbing,
- environmental matters, including RES technologies.

In addition, competence, product and environmental knowledge surveys, and training courses on personal development and soft skill development (assertiveness, interpersonal communication, public appearances/speeches) were carried out under that formula.

7. Information on sales markets with a breakdown into domestic and foreign markets

BOŚ S.A. operates on the Polish market. However, in 2020 the Bank accepted EUR-denominated deposits through an intermediary on the German market. Those deposits represent less than 1% of liabilities to clients.

The table below shows the geographical structure of sources of funding in form of deposits acquired by BOŚ S.A. branches (nominal amounts) for the main branches of the Bank.

(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
branches in Warsaw, Head Office, Private Banking Center, Sales and Client Service Center, Debt Collection	6,481,042	5,327,299	21.7
Branch in Białystok	429,478	429,326	0.0
Branch in Bydgoszcz	913,115	861,215	6.0
Branch in Częstochowa	722,325	760,715	-5.0
Branch in Gdańsk	630,757	583,843	8.0
Branch in Katowice	875,019	837,205	4.5
Branch in Koszalin	259,199	239,470	8.2
Branch in Krakow	1,583,321	1,487,549	6.4
Branch in Lublin	927,277	831,971	11.5
Branch in Łódź	500,115	414,247	20.7
Branch in Olsztyn	754,213	678,119	11.2
Branch in Ostrów Wlkp.	343,131	316,597	8.4
Branch in Poznań	513,911	472,340	8.8
Branch in Rzeszow	823,251	837,687	-1.7
Branch in Szczecin	455,907	402,641	13.2
Branch in Wrocław	935,799	851,426	9.9

Dom Maklerski BOŚ has a branch in the Czech Republic. Bossa.cz provides Czech investors with access to the forex market in the same formula as the head office in Poland – the standard and micro accounts, the BossaFX transaction system in the online and mobile versions. Revenues of the Czech branch constitute 2.10% of the revenue generated by Dom Maklerski BOŚ for 2020. Dom Maklerski BOŚ conducts no other activity outside the territory of the Republic of Poland.

8. Selected figures relating to the Group's operations

	December 31st 2020	December 31st 2019	Change (%)
BANK OCHRONY ŚRODOWISKA S.A.			
Number of clients	216.8	242.0	-10.4
Number of retail clients	197.1	220.0	-10.4
Number of institutional clients	19.7	22.0	-10.5
Number of clients using electronic channels	119.0	124.1	-4.1
Number of savings and current accounts ¹	208.9	241.8	-13.6
Debit and credit cards in total	79.7	86.2	-7.5
Number of branches	51.0	53.0	-3.8
DOM MAKLERSKI BOŚ S.A.			
Number of investment accounts	120.1	104.6	14.8
including online accounts	116.8	101.2	15.4
Number of branches	9.0	11.0	-18.2

1) together with the savings accounts

As at December 31st 2020, the Bank operated 51 outlets, including:

- 13 Business Centres,
- 38 Operating Branches.

9. Development directions for the Bank

Growth Strategy

In 2018, the Supervisory Board of Bank Ochrony Środowiska S.A. approved an update to the 2018–2021 Framework Growth Strategy for BOŚ S.A., which reflected prevailing market and macroeconomic conditions, as well as the provisions of the Turnaround Programme approved by the Polish Financial Supervision Authority.

The strategic objectives are to be achieved through the pursuit of three defined strategic directions, based on the Bank's competitive advantages, both existing and those being developed:

Direction 1

Increased funding of environmental projects and synergies from cooperation with Partners – the growth vision assumes:

- BOŚ Bank has the best specialist products to finance environmentally-friendly projects. The products use the Bank's own funds, funds provided by the NFEPWM/PFEPWM, foreign banks, and government programmes, including those under the Sustainable Development Strategy.
- The offering of environmental products and services is comprehensive and aimed at both institutional and retail clients.
- The key competitive advantage lies in the market-leading processes for management of domestic and foreign programmes for financing of environmental investment projects.
- BOŚ Bank stands out for the quality of its services and innovative approach to pursuing its environmentally-oriented mission, as well as the best experts in environmental engineering.

Direction 2

Increased efficiency of business operations – the growth vision assumes:

- BOŚ Bank is a professional partner that understands and meets specific needs of selected institutional client segments.
- Its competitive advantage is based on the delivery of high-quality complex products for institutional clients, in particular the SMEs.
- A competitive offer for retail clients interested in profitable investment of their free cash.

- The modern distribution channels meet the expectations of the target client segments and market standards.
- Fast, relationship-based and friendly sales and after-sales processes enhance satisfaction and loyalty of the Bank's clients.

Direction 3

Building a culture of strong performance and quality, based on the Bank's values – the growth vision assumes:

- The corporate culture of BOŚ Bank is client-centric and focused on quality and performance. It is created by its Employees, who are strongly committed and promote pro-environmental and pro-social behaviour and attitudes.
- The effective internal communication system makes it easier to get Employees involved in activity of the Bank, making them the ambassadors of the ideas promoted.
- The Bank is also distinguished by high level of cost effectiveness, adequate to its business activity.
- BOŚ Bank is a reputable brand of an employer offering some of the best workplaces in the sector for Employees who share the Bank's system of values.

Activities undertaken as part of the Strategy

In 2020, the Bank's Growth Strategy was implemented as part of the 10 Strategic Programmes. They included a number of projects aimed at enhancing the role of electronic distribution channels and adapting traditional distribution channels to current market challenges and expectations of target client segments.

Once the Bank's new website was made available in early 2020, work started on the development of additional functionalities, in particular those supporting client applications and instructions. An environmental performance meter was placed in service, showing the benefits of environmental investments made with the Bank's financial support on an ongoing basis. BOŚ Bank also launched its proprietary PV calculator, available to clients at kalkulatorpv.bosbank.pl. The tool suggests what system the users need, adapts its size to their conditions and needs, and aids the decision-making process for those who wish both to reduce their electricity spending and protect the environment. In the last quarter of 2020, a chatbot service provider was selected and a procurement procedure for the development of a search engine on the website was closed.

Once the new online banking was launched, in accordance with the PSD2 Directive work was continued on developing electronic banking by adding new functionalities. A new mobile application was launched, running on Android and iOS (iPhone) smartphones. Since May 2020, the Bank's clients have been able to use Express Elixir instant transfers. In the second half of the year, development work on enabling the ePUAP (electronic platform for public administration services) service and BLIK payments began. In November, a strong authentication solution for e-commerce card transactions (in accordance with PSD2 SCA and MasterCard 3D Secure 2.0 requirements) was implemented and made available to Clients. In December 2020, a mobile card payment service in the GPay smartphone app was launched for retail clients.

June 2020 saw the successful completion of pilot implementation of business automation processes at the Bank (RPA – Robotic Process Automation, a technology for automation of recurring business processes using computer programs commonly referred to as robots). The first robot sends the Bank's clients letters with credit decisions relating to mortgage loans. The second one supports the registration and verification of insurance policies securing credit facility agreements. In the fourth quarter of 2020, the process of executing clients' instructions to issue certificates concerning credit facilities being repaid (interest, debt, repayment history) was automated as was the process of checking whether promotional conditions of environmental loans were met. The purpose of process automation is not only to take the burden of performing tedious and repetitive business processes off the employees, but also to improve client service.

In 2020, the Bank also continued the activities related to the concept of client centricity. A number of initiatives were undertaken to broaden the knowledge of environmental protection and promote environment-friendly attitudes among the Bank's employees and clients as well as the local communities.

In 2020, the market of environmental projects was bolstered by the continuing support with EU funds under the 2014–2020 financial framework. Additional support mechanisms, e.g. for renewable energy sources and cogeneration, set the direction for environmental projects for businesses. At the same time, the growing

environmental awareness among Poles and the popularity of healthy lifestyle were conducive to building a community centred around environmental values.

The Bank is at an advanced stage of work on a new strategy that will strengthen the business model related to its focus on environmental protection and will emphasize the Bank's role in the green transformation process. The Bank intends to continue its organic growth in financing environmental protection projects.

10. Organisation of the Group

Structure of the Group

Consolidated subsidiaries of the BOŚ Group as at December 31st 2020:

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

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

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

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

II. FINANCIAL RESULTS AND ACTIVITY

1. Financial performance of the Group

1.1. Profit and loss account of the Group

	(PLN '000)	2020	2019	Change (%)
Interest income and similar revenues		518,582	627,590	-17.4
Interest expense and similar expenses		-147,602	-207,603	-28.9
Net interest income		370,980	419,987	-11.7
Fee and commission income		171,918	132,065	30.2
Fee and commission expense		-37,328	-33,692	10.8
Net fee and commission income		134,590	98,373	36.8

Dividend income	6,262	6,434	-2.7
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	74,461	44,957	65.6
Gain (loss) on investment securities	4,239	582	628.4
Gain (loss) on hedge accounting	-2,038	-42	4,752.4
Gain (loss) on foreign exchange transactions	26,396	16,503	59.9
Other income	20,623	27,550	-25.1
Other expenses	-28,091	-17,045	64.8
Legal risk costs of mortgage loans denominated in foreign currencies	-353,021	-21,221	1,563.5
Net impairment losses	-163,793	-104,536	56.7
Administrative expenses	-376,361	-361,354	4.2
Profit before tax	-285,753	110,188	x
Income tax expense	-21,181	-38,194	-44.5
NET PROFIT	-306,934	71,994	x.

In 2020, the BOŚ Group reported a net loss of PLN 306.9m, compared with a net profit of PLN 72.0m in 2019.

The BOŚ Group earned net interest income of PLN 371.0m, down PLN 49.0m, or 11.7%, on 2019. The decline was mainly attributable to the decisions of the Monetary Policy Council (of March 17th, April 8th and May 28th 2020) to reduce interest rates by a total of 140 basis points.

In 2020, interest income and similar income decreased by PLN 109.0m (17.4%) on 2019, mainly because of a PLN 60.2m (16.2%) decrease in interest income from institutional clients, a PLN 33.4m (25.5%) decrease in interest income on non-trading investment debt securities, a PLN 14.5m (11.9%) decrease in interest income on amounts due from retail clients, a PLN 2.7m (73.2%) decrease in interest on amounts due from banks and the Central Bank, with a PLN 1.7m (1,354.3%) increase in interest income on financial instruments held for trading. In 2020, the average base interest rate applicable to PLN-denominated credit facilities granted by the Bank (excluding the impairment interest adjustment) was 3.97% vs 5.00% in 2019, and to foreign currency-denominated facilities – 2.25% vs 2.48% in 2019.

Interest expense went down by PLN 60.0m (28.9%) in comparison with 2019. The decrease was mainly driven by lower costs of bank accounts and deposits placed by retail clients, which went down by PLN 30.5m (24.0%). Costs of bank accounts and deposits of institutional clients fell by PLN 24.6m (52.3%). The costs of financial instruments (own debt securities) fell by PLN 3.6m (19.1%).

Deposit interest expense fell mainly as a result of the interest rate reduction. The average base interest rate for deposits obtained by the Bank's branches in 2020 was:

- 0.85% versus 1.37% in 2019 for PLN deposits,
- 0.25% versus 0.52% in 2019 for other currency deposits.

(PLN '000)	2020	2019	Change (%)
Interest income and similar income:	518,582	627,590	-17.4
Amounts due from banks and the central bank	986	3,673	-73.2
Amounts due from institutional clients	310,481	370,635	-16.2
Amounts due from retail clients	107,582	122,048	-11.9
Non-trading investment debt securities	97,657	131,105	-25.5
Financial instruments held for trading	1,876	129	1354.3
Interest expense and similar charges on:	147,602	207,603	-28.9
Bank accounts and deposits from banks	321	1,023	-68.6
Bank accounts and deposits from institutional clients	22,447	47,038	-52.3
Bank accounts and deposits from retail clients	96,456	126,988	-24.0
Borrowings from banks	-	-	x
Borrowings from clients	462	818	-43.5
JESSICA lending support funds	177	261	-32.2
Financial instruments – own debt securities	15,100	18,656	-19.1
Hedging transactions	7,700	8,772	-12.2
Lease liabilities	3,686	3,933	-6.3
Litigation and claims related to foreign currency mortgage loans	614	-	x
Other	639	114	460.5
NET INTEREST INCOME	370,980	419,987	-11.7

The Group's net fee and commission income was PLN 134.6m, up by PLN 36.2m (36.8%) year on year as fee and commission income grew at a higher rate than fee and commission expense (31.7% vs 10.8%).

(PLN '000)	2020	2019	Change (%)
Total fee and commission income	171,918	132,065	30.2
Brokerage service fees	101,450	59,555	70.3
Fees for maintaining client accounts, other domestic and international settlement transactions	32,637	34,791	-6.2
Commission fees on credit facilities	31,281	32,139	-2.7
Commission fees on guarantees and letters of credit	5,943	5,071	17.2
Fees for portfolio management services and other management fees	605	496	22.0
Other fees	2	13	-84.6
Total fee and commission expense	37,328	33,692	10.8
Brokerage fees, including:	27,419	21,235	29.1
for custody services	405	358	13.1
Payment card fees	6,151	7,656	-19.7
Current account fees	1,351	1,039	30.0
ATM service charges	1,225	1,134	8.0
Fees on amounts due from clients	213	617	-65.5
Fees paid to other banks for cash transactions	-	1	-100.0
Other fees	969	2,010	-51.8
TOTAL NET FEE AND COMMISSION INCOME	134,590	98,373	36.8

Fee and commission income rose by PLN 39.9m (30.2%). The item that grew the most was revenue from brokerage services – by PLN 41.9m (70.3%). Commission fees on guarantees and letters of credit increased by PLN 0.9m (17.2%). Income from credit facilities fell by PLN 0.9m (2.7%), as did fees for client account services, other domestic and foreign clearing transactions – down by PLN 2.2m (6.2%).

Fee and commission expense rose by PLN 3.6m (10.8%), chiefly on the back of higher brokerage fees (up PLN 6.2m, or 29.1%) and current account fees (up PLN 0.3m, or 30.0%), with payment card fees down by PLN 1.5m (19.7%) and commission income on amounts due from clients down by PLN 0.4m (65.5%).

In 2020, dividend income amounted to PLN 6.3m compared with PLN 6.4m in 2019. The item was mainly affected by dividend from Kemipol Sp. z o.o., which amounted to PLN 5.5m (2019: PLN 5.4m), and a dividend from Wodkan of PLN 0.7m (2019: PLN 0.8m).

The result on financial instruments measured at fair value through profit or loss amounted to PLN 74.5m, versus PLN 45.0m in 2019. The increase was mainly attributable to high volatility of financial markets, which affected the number of transactions executed by clients of Dom Maklerski BOŚ, leading to a significant increase in this source of revenue.

The Group posted gain on investment securities of PLN 4.2m, compared with PLN 0.6m in 2019. The increase in gain on investment securities was attributable to the gain on sale of securities.

The gain on foreign exchange transactions amounted to PLN 26.4m and was PLN 9.9m (59.9%) higher compared with 2019, mainly as a result of remeasurement of the provision for foreign-currency loans.

Due to an increase in court cases, the cost of legal risk related to mortgage loans denominated in foreign currencies, affecting the 2020 results, reached PLN 353.0m (2019: 21.2m).

In 2020, net impairment losses amounted to PLN -163.8m, compared with PLN -104.5m in 2019. This was an effect of a PLN 48.8m **increase in impairment losses mainly in the institutional clients segment.**

	(PLN '000)	2020	2019	Change (%)
Employee benefits		170,723	157,053	8.7
Administrative expenses, including:		152,733	148,643	2.8
material expenses		109,058	100,158	8.9
taxes and charges		5,480	5,452	0.5
contribution and payments to BGF		35,552	39,986	-11.1
contribution and payments to PFSA		2,360	2,819	-16.3
contribution to cover operating expenses of Financial Ombudsman		192	119	61.3
contribution to Chamber of Brokerage Houses (Izba Domów Maklerskich, IDM)		91	91	0.0
other		-	18	-100.0
Amortization and depreciation, including:		52,905	55,658	-4.9
depreciation of property, plant and equipment		12,961	12,587	3.0
amortisation of tangible assets		24,402	25,675	-5.0
depreciation of rights-of-use assets		15,542	17,396	-10.7
TOTAL GENERAL ADMINISTRATIVE EXPENSES		376,361	361,354	4.2

The Group's general administrative expenses rose by PLN 15.0m (4.2%) on 2019, driven mainly by a PLN 13.7m (8.7%) increase in the Group's employee benefits expense. The increase in costs occurred mainly at Dom Maklerski BOŚ and was a consequence of higher salaries and wages attributable to the company's strong financial performance. At the Bank, employee benefit expense increased by PLN 2.0m (1.7%) due to the need to recognise higher than planned provisions for accrued holiday entitlements, not used because of the pandemic, and due to a workforce increase.

As at December 31st 2020, the Bank had 1,106 employees (FTEs), that is 5.0% more in comparison with 1,063 employees at the end of 2019. Employment in the BOŚ Group went up by 4.2% on the end of 2019. The table below presents employment (FTEs) of the Bank and its Subsidiaries.

Employment in full-time equivalents	December 31st 2020	December 31st 2019	Change (%)
Employment at BOŚ S.A.	1,116	1,063	5.0
Employment at subsidiaries	248	246	0.8
EMPLOYMENT AT THE BOŚ GROUP	1,364	1,309	4.2

In 2020, material expenses amounted to PLN 109.1m, having increased by PLN 100.2m (8.9%). The growth was attributable to the revaluation of service contracts, relocation of the server room (cost project), the costs of regulatory and business review concerning prevention of money laundering and the financing of terrorism, and increased legal costs.

The contributions to the Banking Guarantee Fund, including the contribution to the compulsory bank restructuring fund, amounted to PLN 35.6m (2019: PLN 40.0m).

Efficiency and security of the Group operations

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

	2020	2019	Change in percentage points
Return on equity (ROE) ¹	-14.9	3.3	-18.2
Return on assets (ROA) ²	-1.6	0.4	-2.0
Interest margin on total assets ³	1.9	2.3	-0.4
Risks costs ⁴	-1.2	-0.8	-0.4
Costs/income (C/I)	62.0	60.7	1.3

1) ratio of net profit to average equity,

2) ratio of net profit to average assets,

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

4) ratio of net impairment losses including measurement at fair value for the last 12 months to the average balance of credit facilities and loans during the period,

5) ratio of total general administrative expenses and costs of use to net interest income, net fee and commission income, dividend income, result on financial instruments measured at fair value through profit or loss without 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, without provisions for legal risk related to CHF-denominated loans.

Interest margin on total assets, calculated as the ratio of gain (loss) on ... to average assets, was 1.9%, compared with 2.3% in 2019. The decrease was mainly attributable to lower market interest rates.

The cost/income ratio was 62.0%, compared with 60.7% in 2019, mainly due to lower interest income and a higher share of brokerage activities in results.

Capital ratios

	2020	2019	Change in percentage points
Common equity Tier 1 capital ratio	13.09	14.19	-1.10
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	12.58	13.61	-1.03
Tier 1 capital ratio	13.09	14.19	-1.10
Tier 1 capital ratio – without IFRS 9 transitional provisions	12.58	13.61	-1.03

Total capital ratio	14.86	16.39	-1.53
Total capital ratio – without IFRS 9 transitional provisions	14.36	15.83	-1.47

As of December 31st 2020 the minimum capital ratios recommended by the PFSA are 8.87% for Tier 1 capital ratio and 11.0% for the TCR ratio.

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

1.2. Balance sheet total of the Group

The balance sheet total of the BOŚ Group as at December 31st 2020 amounted to PLN 20,505.8m and increased by 10.9% compared to the end of 2019.

The Group's assets

As at December 31st 2020, at 58.0%, amounts due from clients had the highest share in assets. Their share in assets dropped by 7.0 pp from the beginning of 2019. The share of investment securities rose by 7.3 pp.

	(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Cash and balances at central bank		266,552	297,866	-10.5
Amounts due from banks		155,616	165,733	-6.1
Financial assets held for trading		113,134	140,344	-19.4
Derivative hedging instruments		-	-	x
Investment securities:		7,371,414	5,302,078	39.0
Amounts due from clients, including:		11,887,297	12,003,794	-1.0
measured at amortised cost		11,861,783	11,965,509	-0.9
measured at fair value through profit or loss		25,514	38,285	-33.4
Assets held for sale		-	-	x
Intangible assets		110,902	117,062	-5.3
Property, plant and equipment		84,651	77,743	8.9
Right of use – leases		67,796	79,738	-15.0
Tax assets:		129,136	109,418	18.0
Other assets		319,331	193,221	65.3
ASSETS TOTAL		20,505,829	18,486,997	10.9

Amounts due from clients

	(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Measured at amortised cost		11,827,480	11,961,192	-1.1
Amounts due from retail clients		3,463,724	3,552,255	-2.5
overdraft facilities		3,028	1,362	122.3
cash loans		364,300	367,484	-0.9
housing loans		2,845,873	2,888,692	-1.5
other facilities		250,523	294,717	-15.0
Amounts due from institutional clients		8,363,756	8,408,937	-0.5
working capital facilities		518,709	530,544	-2.2
term facilities		7,237,795	7,222,945	0.2
factoring receivables		331,450	511,344	-35.2
lease receivables		105,756	93,629	13.0
purchased receivables		96,123	50,475	90.4
commercial paper		73,923	-	x
Measurement at fair value through profit or loss		25,514	38,285	-33.4
Amounts due from retail clients		1,192	1,938	-38.5
housing loans		427	648	-34.1
other facilities		765	1,290	-40.7
Amounts due from institutional clients		24,322	36,347	-33.1
working capital facilities		39	195	-80.0
term facilities		24,283	36,152	-32.8
Total		11,852,994	11,999,477	-1.2
Security deposits		31,704	4,317	634.4
Other amounts due from clients		2,599	-	x
TOTAL AMOUNTS DUE FROM CLIENTS		11,887,297	12,003,794	-1.0

As at the end of 2020, amounts due from the Group's clients amounted to PLN 11,887.3m, having decreased by 1.0% from PLN 12,003.8m recorded as at the end of 2019.

The highest share in total amounts due from clients, amounting to 70.4%, was recorded for amounts due from institutional clients at amortised cost. Their share increased by 0.3 pp compared to the end of year 2019. Amounts due from institutional clients amounted to PLN 8,363.8m.

The share of amounts due from retail clients measured at amortised cost in total amounts due from clients decreased by 0.5 pp to 29.1%. Retail clients' credit facilities measured at amortised cost came in at PLN 3,463.7m as at the end of 2020. Their largest item were housing loans, with a carrying amount (at amortised cost) of PLN 2,845.9m (PLN 2,888.7m at the end of 2019).

(PLN '000)	2020	2019	Change (%)
HOUSING LOANS MEASURED AT AMORTISED COST	2,845,873	2,888,692	-1.5
Mortgage loans in PLN	1,367,273	1,361,358	0.4
Mortgage loans in CHF	860,971	895,104	-3.8
Mortgage loans in EUR	583,561	592,770	-1.6
Mortgage loans in USD	34,068	39,460	-13.7
Credits and loans measured at the fair value through profit or loss	427	648	-34.1
Mortgage loans in PLN	427	648	-34.1
MORTGAGE LOANS TOTAL	2,846,300	2,889,340	-1.5

Loans in foreign currencies have 51.9% in the total mortgage loan portfolio (52.9% at the end of 2019). The share of mortgage loans in CHF in the entire credit portfolio of BOŚ Group (net) was 7.2%, which is less by 0.3 pp in relation to the end of year 2019.

Credits and loans granted during the reporting period

In 2020, the Bank granted credit facilities and loans (new sales) of PLN 3,296.7m, down by 28.2% on 2019 (based on the principal amount at the time granting the credit facility). Sales to institutional clients fell by 30.0%, and to retail clients by 9.4%.

(PLN '000)	2020	2019	Change (%)
Credit facilities granted to institutional clients during the year	2,944,717	4,204,645	-30.0
Credit facilities granted to retail clients during the year	351,982	388,294	-9.4
CREDIT FACILITIES GRANTED TO CLIENTS DURING THE YEAR	3,296,698	4,592,939	-28.2

Sales of environmental credit facilities amounted to PLN 1,346.4m in 2020, down 29.7% year on year.

Quality of the Group's loan portfolio

	December 31st 2020	%	December 31st 2019	%
Amounts due from clients measured at amortised cost				
Amounts due from clients without indications of impairment,	10,983,679	84.3	11,128,284	84.7
<i>exposures without significant credit risk increase since initial recognition (Bucket 1)</i>	8,582,957	65.9	8,691,476	66.2
<i>exposures with significant increase in risk since initial recognition (Bucket 2), including:</i>				
<i>wind farms</i>	2,400,722	18.4	2,436,808	18.6
<i>wind farms</i>	1,167,101	9.0	1,290,953	9.8
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows, including:	337,120	2.6	402,594	3.1
<i>wind farms</i>	219,641	1.7	252,616	1.9
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,709,690	13.1	1,601,327	12.2
<i>wind farms</i>	13,434	0.1	13,553	0.1
Total amounts due from clients measured at amortised cost (gross)	13,030,489	100.0	13,132,205	100.0
Impairment loss write-offs for:				
<i>amounts due from clients – (Bucket 1)</i>	-84,772		-79,182	
<i>amounts due from clients – (Bucket 2), including:</i>				
<i>wind farms</i>	-126,123		-124,948	
<i>wind farms</i>	-30,947		-32,837	
<i>amounts due from clients – (Bucket 3) with no indication of impairment, including:</i>				
<i>wind farms</i>	-10,245		-11,511	
<i>wind farms</i>	-8,734		-9,633	
<i>amounts due from clients – (Bucket 3) with indications of impairment, including:</i>				
<i>wind farms</i>	-981,869		-955,372	
<i>wind farms</i>	-1,578		- 8,790	
Total impairment losses	-1,203,009		- 1,171,013	
Total amounts due from clients measured at amortised cost (net)	11,827,480	90.8	11,961,192	91.1
Amounts due from client measured at fair value through profit or loss				
Fair value, including:	25,514		38,285	
<i>wind farms</i>	-		-	
Total amounts due from clients measured at fair value through profit or loss	25,514		38,285	
Security deposits	31,704		4,317	
Other amounts due from clients	2,599		-	
TOTAL AMOUNTS DUE FROM CLIENTS	11,887,297		12,003,794	

At the end of 2020, impairment losses on credit facilities and loans amounted to PLN 1,203.0m. The share of amounts due from clients with indications of impairment in the entire portfolio measured at amortised cost was 13.1% as at December 31st 2020, relative to 12.2% as at the end of 2019.

Group's equity and liabilities

	(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Amounts due to central bank and other banks		732,743	595,667	23.0
Financial liabilities held for trading, including:		103,316	50,926	102.9
– equity securities		575	-	X.
– debt securities		-	-	x
– derivative instruments		102,741	50,926	101.7
Derivative hedging instruments		24,497	16,869	45.2
Amounts due to clients		16,560,715	14,914,981	11.0
Liabilities related to the issue of bank securities		-	-	x
Subordinated liabilities		368,996	370,731	-0.5
Provisions		418,534	57,705	625.3
Tax liabilities:		1,103	9,795	-88.7
Lease liabilities		71,229	83,349	-14.5
Other liabilities		311,526	187,044	66.6
Total equity		1,913,170	2,199,930	-13.0
TOTAL EQUITY AND LIABILITIES		20,505,829	18,486,997	10.9

As at the end of 2020, amounts due to clients had the largest share (80.8%) in total equity and liabilities. The share increased by 0.1 pp relative to December 31st 2019. An increase was also reported in the share of provisions, amounts due to Central Bank and other banks, and liabilities held for trading - by 1.7 pp, 0.4 pp and 0.2 pp, respectively. The share of equity decreased by 2.6 pp.

Sources of funding of the Group operations

	(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Retail clients		9,380,943	8,891,460	5.5
current/checking accounts		5,206,561	3,967,906	31.2
term deposits		4,174,382	4,923,554	-15.2
Institutional clients		6,305,999	5,116,946	23.2
current/checking accounts		5,126,798	3,099,678	65.4
term deposits		1,179,201	2,017,268	-41.5
Other clients		72,182	63,607	13.5
Borrowings from International Financial Institutions		715,708	777,758	-8.0
Lending support funds		85,883	65,210	31.7
TOTAL LIABILITIES		16,560,715	14,914,981	11.0

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

- deposits acquired by Bank's outlets,
- credit facilities and loans 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 2020, the BOŚ Group's amounts due to clients amounted to PLN 16,560.7m, up 11.0% on the end of 2019.

The Group's amounts due to institutional clients increased by PLN 1,189.1m, or 23.2%, and those to retail clients – by PLN 489.5m, or 5.5%, year on year.

Information about credit facilities taken, loan, surety and guarantee agreements not related to the Group's operating activities

In 2020, the BOŚ Group did not take out any credit facilities or sign any loan, surety or guarantee agreements not related to the Bank's operating activities.

1.3. Group contingent assets and contingent liabilities

	(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Contingent liabilities:		2,863,156	2,846,868	0.6
Financial, including:		2,490,309	2,538,723	-1.9
open credit lines, including:		2,464,889	2,513,639	-1.9
revocable		2,130,346	2,267,427	-6.0
irrevocable		334,543	246,212	35.9
open import letters of credit		20,250	5,839	246.8
loan commitments, including:		5,170	19,245	-73.1
irrevocable		5,170	19,245	-73.1
Guarantees, including:		372,847	308,145	21.0
credit repayment sureties and guarantees		12,739	12,909	-1.3
performance bonds		360,108	295,236	22.0
Contingent assets:		915,199	480,132	90.6
Financial, including:		-	85,170	-100.0
open lines of credit		-	85,170	-100.0
Guarantees		899,975	381,445	135.9
Other		15,224	13,517	12.6
TOTAL CONTINGENT ASSETS AND CONTINGENT LIABILITIES		3,778,355	3,327,000	13.6

Total contingent liabilities of the Group as at December 31st 2020 amounted to PLN 2,863.2m, including financial liabilities of PLN 2,490.3m. As at December 31st 2020, the Group's guarantees, constituting an item of total off-balance-sheet liabilities, totalled PLN 372.8m, of which:

- the highest guarantee amounts were PLN 59.7m and 53.0m,
- by value, most guarantees (73.1%) were other domestic guarantees (26.3%), domestic payment guarantees (24.4%), and domestic performance bonds (22.4%),
- all guarantees were issued by the Bank to residents,

As at December 31st 2020, the guarantees were issued at the request of:

- non-financial entities – 99.4%
- government and local government institutions – 0.5%
- 0.1% – retail clients.

Sureties and guarantees granted and obtained in the financial year

In 2020, the Bank granted 124 guarantees and sureties in the total amount of PLN 186.7m, of which 72 were still effective as at December 31st 2020 (2019: 136 guarantees and sureties in the amount of PLN 114.6m). The guarantees and sureties were granted for the following terms (by value):

- from 1 month to 3 years – 91.9%,
- more than 5 years – 7.8%,
- 3 to 5 years – 0.4%.

2. Financial results of the Bank

2.1. Profit and loss account of the Bank

	(PLN '000)	2020	2019	Change (%)
Interest income and similar income, including:		516,280	628,490	-17.9
Interest expense and similar charges, including:		-148,985	-215,201	-30.8
Net interest income		367,295	413,289	-11.1
Fee and commission income		72,441	74,176	-2.3
Fee and commission expense		- 9,745	-12,583	-22.6
Net fee and commission income		62,696	61,593	1.8
Dividend income		6,205	6,277	-1.1
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)		18,601	15,910	16.9
Gain (loss) on investment securities		4,239	582	628.4
Gain (loss) on hedge accounting		-2,038	-42	4,752.4
Gain (loss) on foreign exchange transactions		25,071	16,725	49.9
Other income		9,480	9,425	0.6
Other expenses		- 15,566	- 12,467	24.9
Legal risk costs of mortgage loans denominated in foreign currencies		- 353,021	- 21,221	1,563.5
Net impairment losses		- 165,714	-100,773	64.4
Administrative expenses		- 285,778	-285,871	0.0
Share of profit (loss) of entities accounted for using equity method		29,471	2,712	986.7
Profit before tax		-299,059	106,139	x
Income tax expense		-11,239.0	-34072.0	-67.0
NET PROFIT		-310,298	72,067	x.

In 2020, BOŚ S.A. reported a net loss of PLN 310.3m, whereas in 2019 it earned a profit of PLN 72.1m.

BOŚ S.A. generated net interest income of PLN 367.3m, down by PLN 46.0m (11.1%) on 2019.

(PLN '000)	2020	2019	Change (%)
Interest income and similar income:	516,280	628,490	-17.9
Amounts due from banks and the central bank	979	3,616	-72.9
Amounts due from institutional clients	308,266	371,721	-17.1
Amounts due from retail clients	107,582	122,048	-11.9
Non-trading investment debt securities	97,657	131,105	-25.5
Financial instruments held for trading	1,796	0	x
Interest expense and similar charges on:	148,985	215,201	-30.8
Bank accounts and deposits from banks	178	1,023	-17.9
Bank accounts and deposits from institutional clients	24,921	55,759	-55.3
Bank accounts and deposits from retail clients	96,290	126,236	-23.7
Borrowings from banks	-	-	x
Borrowings from clients	462	818	-43.5
JESSICA lending support funds	177	261	-32.2
Financial instruments – own debt securities	15,100	18,656	-19.1
Hedging transactions	7,700	8,772	-12.2
Lease liabilities	3,543	3,676	-3.6
Litigation and claims related to foreign currency mortgage loans	614	-	x
NET INTEREST INCOME	367,295	413,289	-11.1

Interest income and similar income decreased by PLN 112.2m, or 17.9%, on 2019, mainly because of a PLN 63.5m (17.1%) drop in interest income on amounts due from institutional clients and a PLN 14.5m (11.9%) decrease in interest on amounts due from retail clients. Interest income on non-trading investment debt securities decreased by PLN 33.4m (25.5%).

Interest expense fell by PLN 66.2m (30.8%) in comparison with 2019. What contributed the most to the decrease was the lower cost of bank accounts and deposits of institutional clients, which dropped by PLN 30.8m (55.3%). The cost of retail clients' bank accounts and deposits went down by PLN 29.9m (23.7%). The costs of financial instruments – own debt securities fell by PLN 3.6m, or 19.1%.

The Bank's net fee and commission income increased by PLN 1.1m (1.8%) in 2020, driven by a higher rate of decrease in fee and commission expense (down 22.6%) than in fee and commission income (down 2.3%).

The total fee and commission income decreased by PLN 1.7m (2.3%). The Bank's commissions on guarantees and letters of credit rose by PLN 0.8m (16.6%). A decrease was reported in fees for maintaining client accounts (down PLN 1.9m, or 5.1%) and commission income on credit facilities (down PLN 0.7m, or 2.2%).

	(PLN '000)	2020	2019	Change (%)
Fee and commission income		72,441	74,176	-2.3
Fees for maintaining client accounts, other domestic and international settlement transactions		34,965	36,834	-5.1
Commission fees on credit facilities		31,531	32,231	-2.2
Commission fees on guarantees and letters of credit		5,943	5,098	16.6
Other fees		2	13	-84.6
Fee and commission expense		9,745	12,583	-22.6
Payment card fees		6,151	7,656	-19.7
Current account fees		1,351	1,039	30.0
ATM service charges		1,225	1,134	8.0
Fees on amounts due from clients		213	617	-65.5
Fees paid to other banks for cash transactions			1	-100.0
Other fees		805	2,136	-62.3
TOTAL NET FEE AND COMMISSION INCOME		62,696	61,593	1.8

The fee and commission expense dropped by PLN 2.8m (22.6%) due to lower payment card fees (down PLN 1.5m) and commission income on amounts due from clients (down PLN 0.4m, i.e. 65.5%).

In 2020, dividend income amounted to PLN 6.2m, whereas in 2019 it was PLN 6.3m. The item was mainly affected by dividend from Kemipol Sp. z o.o., which amounted to PLN 5.5m (2019: PLN 5.4m), and dividend from Wodkan of PLN 0.7m (2019: PLN 0.8m).

The result on financial instruments measured at fair value through profit or loss amounted to PLN 18.6m, versus PLN 15.9m in 2019.

The Bank's gain on investment securities in 2020 amounted to PLN 4.2m, compared to PLN 0.6m in 2019. The increase in gain on investment securities was attributable to the gain on sale of securities.

The gain (loss) on foreign exchange transactions amounted to PLN 25.1m and was PLN 8.3m (49.9%) higher than in 2019, mainly as a result of remeasurement of the provisions for foreign-currency loans.

Due to an increase in court cases, the cost of legal risk related to mortgage loans denominated in foreign currencies, affecting the 2020 results, reached PLN 353.0m (2019: 21.2m).

In 2020, net impairment losses increased to PLN -165.7m from PLN -100.8m in 2019, due to a PLN 54.6m increase in impairment losses mainly in the segment of institutional clients.

(PLN '000)	2020	2019	Change (%)
Employee benefits	122,541	120,514	1.7
Administrative expenses, including:	120,468	119,395	0.9
material expenses	81,320	74,917	8.5
taxes and charges	1,679	1,903	-11.8
contribution and payments to BGF	35,441	39,874	-11.1
contribution and payments to PFSA	1,866	2,595	-28.1
contribution to cover operating expenses of Financial Ombudsman	162	106	52.8
Amortization and depreciation, including:	42,769	45,962	-6.9
depreciation of property, plant and equipment	7,301	7,125	2.5
amortisation of tangible assets	22,023	23,585	-6.6
depreciation of rights-of-use assets	13,445	15,252	x
TOTAL GENERAL ADMINISTRATIVE EXPENSES	285,778	285,871	0.0

The Bank's general administrative expenses did not change materially relative to 2019.

Employee benefits expense increased by PLN 2.0m (1.7%) due to the need to recognise higher than planned provisions for accrued holiday entitlements, not used because of the pandemic, and a 5.0% increase in the number of FTEs relative to the end of 2019.

In 2020, material expenses amounted to PLN 81.3m, having increased by 8.5% on PLN 74.9m recorded in 2019. The growth was attributable to the revaluation of service contracts, relocation of the server room (cost project), the costs of regulatory and business review concerning prevention of money laundering and the financing of terrorism, and increased legal costs.

Contributions to the Bank Guarantee Fund (BGF), including the contribution to the compulsory bank restructuring fund, were PLN 4.4m lower than in 2019 and amounted to PLN 35.4m.

Efficiency and security of the Bank's operations

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

	2020	2019	Change in percentage points
Return on equity (ROE) ¹	-15.3	3.8	-19.1
Return on assets (ROA) ²	-1.6	0.4	-2.0
Interest margin on total assets ³	1.9	2.3	-0.4
Risks costs ⁴	-1.2	-0.8	0.4
Cost/Income (C/I) ⁵	60.0	54.9	5.1

1) ratio of net profit to average equity,

2) ratio of net profit to average assets,

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

4) ratio of net impairment losses including measurement at fair value for the last 12 months to the average balance of credit facilities and loans during the period,

5) ratio of total general administrative expenses and costs of use to net interest income, net fee and commission income, dividend income, result on financial instruments measured at fair value through profit or loss without 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, without provisions for CHF-denominated loans.

Interest margin on total assets, calculated as the ratio of gain (loss) on ... to average assets, was 1.9%, compared with 2.3% in 2019. The decrease was mainly attributable to lower market interest rates.

The cost/income ratio was 60.0% in 2020, compared with 54.9% in 2019, due to lower interest income.

Capital ratios

	2020	2019	Change in percentage points
Common equity Tier 1 capital ratio	13.17	14.3	-1.13
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	12.56	13.71	-1.15
Tier 1 capital ratio	13.17	14.3	-1.13
Tier 1 capital ratio – without IFRS 9 transitional provisions	12.56	13.71	-1.15
Total capital ratio	14.98	16.58	-1.60
Total capital ratio – without IFRS 9 transitional provisions	14.38	16.00	-1.62

As at December 31st 2020, the minimum capital ratios recommended by the Polish Financial Supervision Authority were 8.88% for Tier 1 capital ratio and 11.01% for the TCR ratio.

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

2.2. Balance sheet total of the Bank

The balance sheet total of BOŚ S.A. of at December 31st 2020 amounted to PLN 20,298.9m and increased by 10.4% compared with the end of 2019.

Bank's assets

As at December 31st 2020, at 58.6%, amounts due from clients had the highest share in assets. Their share fell by 6.9 pp from the beginning of 2019, while the share of investment securities increased by 7.5 pp.

	(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Cash and balances at central bank		266,532	297,862	-10.5
Amounts due from banks		142,015	148,918	-4.6
Financial assets held for trading		79,827	100,513	-20.6
Investment securities:		7,371,414	5,302,078	39.0
Amounts due from clients, including:		11,891,853	12,029,020	-1.1
measured at amortised cost		11,866,339	11,990,735	-1.0
measured at fair value through profit or loss		25,514	38,285	-33.4
Investments in subsidiaries		193,803	167,389	15.8
Intangible assets		99,484	106,169	-6.3
Property, plant and equipment		38,429	29,332	31.0
Right of use – leases		63,482	73,330	-13.4
Tax assets:		124,127	104,171	19.2
Other assets		27,896	24,107	15.7
ASSETS TOTAL		20,298,862	18,382,889	10.4

Amounts due from clients

Amounts due from the Bank's clients reached PLN 11,891.9m at the end of 2020 and were 1.1% lower than at the end of 2019 (PLN 12,029.0m).

The highest share in total amounts due from clients, amounting to 70.4%, was recorded for amounts due from institutional clients at amortised cost. Their share increased by 0.3 pp compared to the end of year 2019. Amounts due from institutional clients amounted to PLN 8,371.0m.

The share of amounts due from retail clients measured at amortised cost in total amounts due decreased by 0.4 pp to 29.1%. Retail clients' credit facilities measured at amortised cost as at the end of 2020 amounted to PLN 3,461.0m, compared to PLN 3,551.4m at the end of 2019. The most significant item among these are housing loans, with a carrying amount of PLN 2,845.9m at the end of 2020, compared to PLN 2,888.7m at the end of 2019. Information on housing loans is provided in clause 1.2.1.

(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Measured at amortised cost	11,832,036	11,986,418	-1.3
Amounts due from retail clients	3,461,023	3,551,364	-2.5
overdraft facilities	327	471	-30.6
cash loans	364,300	367,484	-0.9
housing loans	2,845,873	2,888,692	-1.5
other facilities	250,523	294,717	-15.0
Amounts due from institutional clients	8,371,013	8,435,054	-0.8
working capital facilities	518,707	526,590	-1.5
term facilities	7,350,810	7,330,136	0.3
factoring receivables	331,450	511,344	-35.2
lease receivables	-	-	x
purchased receivables	96,123	66,984	43.5
commercial paper	73,923	-	x
Measurement at fair value through profit or loss	25,514	38,285	-33.4
Amounts due from retail clients	1,192	1,938	-38.5
housing loans	427	648	-34.1
other facilities	765	1,290	-40.7
Amounts due from institutional clients	24,322	36,347	-33.1
working capital facilities	39	195	-80.0
term facilities	24,283	36,152	-32.8
Total	11,857,550	12,024,703	-1.4
Security deposits	31,704	4,317	634.4
Other amounts due from clients	2,599	-	x
Total amounts due from clients	11,891,853	12,029,020	-1.1

Credits and loans granted during the reporting period

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

Quality of the Bank's loan portfolio

At the end of 2020, impairment losses amounted to PLN 1,196.1m. The ratio of impairment losses to credit facilities and loans granted to clients and banks (gross), measured at the amortised cost and at fair value through profit or loss, as at December 31st 2020 amounted to 9.2%.

The share of amounts due from clients with indications of impairment in the entire portfolio measured at amortised cost was 12.9% as at December 31st 2020, relative to 12.2% as at the end of 2019.

	December 31st 2020	%	December 31st 2019	%
Amounts due from clients measured at amortised cost				
Amounts due from clients without indications of impairment, including:	10,991,922	84.4	11,152,839	84.8
exposures without significant credit risk increase since initial recognition (Basket 1)	8,520,818	65.4	8,705,917	66.2
exposures with significant increase in risk since initial recognition (Basket 2), including:	2,471,104	19.0	2,446,922	18.6
wind farms	1,168,694	9.0	1,292,781	9.8
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows, including:	358,808	2.8	425,446	3.2
wind farms	241,329	1.9	275,468	2.1
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,677,430	12.9	1,571,648	12.0
wind farms	13,434	0.1	13,553	0.1
Total amounts due from clients measured at amortised cost (gross)	13,028,160	100.0	13,149,933	100.0
Impairment losses on:				
amounts due from clients – (Basket 1)	-85,011		-80,025	
amounts due from clients – (Basket 2), including:	-128,655		-125,160	
wind farms	-30,947		-32,837	
amounts due from clients – (Basket 3) with no indication of impairment, including:	-11,097		-12,373	
wind farms	-9,586		-10,495	
amounts due from clients – (Basket 3) with indications of impairment, including:	-971,361		-945,957	
wind farms	-1,578		-8,790	
Total impairment losses	-1,196,124		-1,163,515	
Total amounts due from clients measured at amortised cost (net)	11,832,036	90.8	11,986,418	91.2
Amounts due from client measured at fair value through profit or loss				
Fair value, including:	25,514		38,285	
wind farms	-		-	
Total amounts due from clients measured at fair value through profit or loss	25,514		38,285	
Security deposits	31,704		4,317	
Other amounts due from clients	2,599		-	
Total amounts due from clients	11,891,853		12,029,020	

Bank's equity and liabilities

As at the end of 2020, amounts due to clients had the largest share (81.5%) in total equity and liabilities. Their share increased by 0.6 pp relative to December 31st 2019. The share of provisions was also higher, by 1.7 pp, while the share of liabilities under equity and lease contracts fell by 2.6 pp and 0.1 pp, respectively.

	(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Amounts due to central bank and other banks		732,743	595,667	23.0
Financial derivative financial instruments held for trading		97,410	48,741	99.9
Derivative hedging instruments		24,497	16,869	45.2
Amounts due to clients		16,553,777	14,886,720	11.2
Liabilities related to the issue of bank securities		-	-	x
Subordinated liabilities		368,996	370,731	-0.5
Provisions		415,070	57,872	617.2
Tax liabilities:		-	8,128	-100.0
Lease liabilities, IFRS 16		66,734	76,595	-12.9
Other liabilities		129,230	121,036	6.8
Total equity		1,910,406	2,200,530	-13.2
TOTAL EQUITY AND LIABILITIES		20,298,862	18,382,889	10.4

Sources of funding of the Bank's operations

BOŚ S.A.'s amounts due to clients as at December 31st 2020 amounted to PLN 16,553.8m and increased by 11.2% compared to the end of year 2019. Amounts due to institutional clients increased by PLN 1,666.0m (29.6%) relative to the end of 2019. Amounts due to retail clients rose by PLN 37.5m (0.4%). Liabilities under credit facilities and loans received from International Financial Institutions decreased by PLN 62.1m (8.0%).

	(PLN '000)	December 31st 2020	December 31st 2019	Change (%)
Retail clients		8,414,930	8,377,446	0.4
current/checking accounts		4,240,548	3,453,892	22.8
term deposits		4,174,382	4,923,554	-15.2
Institutional clients		7,262,493	5,601,652	29.6
current/checking accounts		6,080,790	3,572,203	70.2
term deposits		1,181,703	2,029,449	-41.8
Other clients		74,763	64,654	15.6
Borrowings from International Financial Institutions		715,708	777,758	-8
Lending support funds		85,883	65,210	31.7
TOTAL LIABILITIES DUE TO CLIENTS		16,553,777	14,886,720	11.2

2.3. Contingent assets and contingent liabilities of the Bank

	December 31st 2020	December 31st 2019	Change (%)
Contingent liabilities:	2,956,784	2,931,173	0.9
Financial, including:	2,583,937	2,623,028	-1.5
open credit lines, including:	2,558,517	2,597,944	-1.5
revocable	2,223,974	2,351,732	-5.4
irrevocable	334,543	246,212	35.9
open import letters of credit	20,250	5,839	246.8
loan commitments, including:	5,170	19,245	-73.1
irrevocable	5,170	19,245	-73.1
guarantees, including:	372,847	308,145	21.0
credit repayment sureties and guarantees	12,739	12,909	-1.3
performance bonds	360,108	295,236	22.0
guarantee for a subsidiary	-	-	x
Contingent assets:	899,975	466,615	92.9
Financial, including:	-	85,170	x.
open lines of credit	-	85,170	x.
guarantees	899,975	381,445	135.9
Total contingent assets and contingent liabilities	3,856,759	3,397,788	13.5

Total contingent liabilities of the Bank as at December 31st 2020 amounted to PLN 2,956.8m, including financial liabilities of the Bank of PLN 2,583.9m. As at December 31st 2020, outstanding guarantees, constituting an item of total off-balance-sheet liabilities, totalled PLN 372.8 thousand.

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

3. Difference between financial forecasts and actual performance

On June 2nd 2020, in Current Report No. 12/2020 BOŚ S.A. announced that the decisions of the Monetary Policy Council of March 17th, April 8th and May 28th 2020 to cut interest rates by a total of 140 basis points would result in a reduction of the Bank's interest income by PLN 48m–63m.

In fact, the BOŚ Group's net interest income fell by PLN 49m year on year, and the separate net interest income decreased by PLN 46m.

Apart from the information on the effect of interest rate cuts by the Monetary Policy Council on net interest income, the BOŚ Group did not publish any financial performance forecasts.

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

The BOŚ Group does not conduct any research activity. Achievements in the Company's development are described in Clause I of this Report.

As at the date of authorisation of this Report for issue, there are no circumstances that would indicate a threat to the Bank's or the Group companies' ability to continue as a going concern for at least 12 months after the reporting date as a result of deliberate or compulsory discontinuation or limitation of their current operations (for more information, see Note 3.3. of the full-year consolidated financial statements of the BOŚ Group for the year ended December 31st 2020).

III. RISK MANAGEMENT AT THE GROUP

1. Credit risk

The key objective of credit risk management in 2020, in particular, with regard to asset quality management, was to improve the quality and structure of the loan portfolio.

Measures aimed at improving the quality of the loan portfolio were focused on implementation of a policy assuming a limited risk appetite, making it possible to reach a risk cost level close to the sector average.

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

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

- of the offering that would comprehensively satisfy clients' needs, including through specialized offering of a broad range of environmental products - for institutional clients;
- of the offer aimed mainly at financing of environmental solutions – for retail clients.

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

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

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

The decisions on provision of funding were conditional on:

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

The client and the transaction were subject to a comprehensive credit risk assessment with due regard to the economic effects of the COVID-19 pandemic.

The Bank carried out credit risk assessment using rating and scoring models depending on the client and the transaction type. The models were built, developed, monitored and supervised by the Risk Area, taking into account internal and external requirements.

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

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

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

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

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

Client assessment involved quantitative and qualitative elements. The quantitative assessment focused on the key areas of the client's business activity with a bearing on profit generation capacity and financial liquidity. Qualitative assessment included in particular: assessment of development plans, experience and skills of managers, quality of the relation between client and external environment, including the Bank.

The 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.

In the case of funding granted to a client being a related party, the Bank assessed the credit risk taking into account the effect of related parties' standing.

The transaction was assessed in particular on the basis of an assessment of the purpose of the financing, the length of the facility term and the value of the collateral. The Bank established the financing structure to provide risk-sharing between the borrower and the Bank, mainly by the exposure of the borrower's own funds adequate to the scale of the risk.

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

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

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

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

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

In order to measure the impairment of credit exposures and recognize impairment losses or provisions, the Bank used the individual and group approach. Due to the COVID-19 pandemic outbreak and uncertainties regarding its potential impact on the economic situation and the loan portfolio, the Bank decided to introduce a temporary expert adjustment in the process of estimating impairment losses using the group approach, to reflect the sensitivity of individual industries to the crisis caused by COVID-19, and to apply a higher weight of the worst case scenario to forecasting the macroeconomic situation.

Authorisation to make credit decisions at the Bank depended on:

- the type and value of the transaction,
- the Bank's total credit exposure to the group of related entities including the client,
- the level of risk generated by the client and the transaction.

The Bank has put in place a system of credit decision-making based on the rule that the higher the risk of the transaction due to its complexity, the amount of exposure or the financial and economic condition of the client, the higher decision-making level is authorized to make the decision. The decision-making level with highest clearance level are the Head Office Credit Committee and the Management Board of the Bank.

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 accepts material and personal guarantees as collaterals.

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

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 choosing the type of collateral, the Bank considered:

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

The Bank had in place a Policy for Management of 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 the economic consequences of the COVID-19 pandemic on the quality of the loan portfolio, the Bank applied special rules governing financing and monitoring of clients, in line with the solutions proposed by the PFSA in the Supervisory Stimulus Package for Security and Development, adapting them to the current market and epidemic situation. Among other things, the Bank allowed the possibility of granting financing based on prospective creditworthiness and simplified liquidity projections. The Bank actively participated in assistance programmes carried out under the government's relief measures.

The Bank also showed special consideration to financing in industries which, in its opinion, remain most vulnerable to the negative effects of the pandemic, including the financing of exposures secured by commercial income property.

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.

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

In particular, the Bank applied the following limits:

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

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

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

The 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 supervisory 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. and includes: (DM BOŚ S.A.) and includes:

- 1) liquidity risk,
 - 2) market risk, including:
 - interest rate risk (in the banking book and the trading book),
 - currency risk (mainly in the trading book; currency risk from the banking book is transferred to the trading book),
- 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:

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

In line with the Group's strategy, the trading book business is complementary to the banking book business. The trading book contains transactions that were entered into by the Bank on its own account for trading purposes, i.e., to gain financial profits in short-term periods due to actual or expected differences between bid and offer prices in the market, as well as other movements of prices or price parities, including in particular interest rates and foreign exchange rates. Transactions held in the trading book are not sold for liquidity purposes. The purpose of the trading book is to ensure the highest quality of services for clients. To this end, the Bank and Dom Maklerski BOŚ S.A. maintain open positions within the applicable risk limits.

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

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

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

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

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

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

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

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

- 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,
- liquid assets (excess liquidity) – a buffer for expected and unexpected outflows over a period of 30 days,
- liquidity reserve – which measures the level of liquid assets less expected and unexpected outflows, determined for a period of 30 days, including a concentration margin,
- stability of deposit ratio assessment,
- short-term liquidity gap (PLN, EUR, CHF, USD) - shows the level of mismatch in the financing structure in foreign currencies, the gap includes mainly cash flows from derivative and interbank transactions,
- 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:

- the contractual liquidity gap and liquidity gap in real terms (which is supplemented by a systematically carried out analysis: the stability of the deposit base, concentration of the deposit base, the size of prepayment of credits and the level of deposits' withdrawals),
- coverage ratio of long-term assets by long-term liabilities,
- coverage ratio of loans used to finance long-term needs of clients as the most stable sources of funding;
- forecasts of the LCR, liquid assets and long-term liquidity measures (e.g. NSFR).

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

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

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

Overall liquidity risk profile

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

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

takes into account primarily the following: size of issue, market turnover and volatility of the price of purchase/sale.

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

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

Measures of liquidity risk

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

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

The long-term standards include the following ratios: M3 (ratio of coverage of non-liquid assets with equity) and M4 (ratio of coverage of non-liquid assets and assets with limited liquidity with equity and stable external funds). The Bank calculates the Net Stable Funding Ratio (NSFR) and reports it to the Polish Financial Supervision Authority and the National Bank of Poland. The Bank has an internal warning value for this indicator at the level of the target supervisory limit, i.e. 100% (December 31st 2020: 104%). In addition, in accordance with Commission Implementing Regulation (EU) 2016/313 of March 1st 2016 amending Implementing Regulation (EU) No 680/2014 with regard to additional monitoring metrics for liquidity reporting to the National Bank of Poland as part of mandatory reporting, the Bank prepares and submits ALMM reports.

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

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

Measure	December 31st 2020	December 31st 2019
LCR	158%	131%
M3	54.72	81.26
M4	1.41	1.30

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

to a scenario analysis of liquidity in contingencies (the assumptions of which are consistent with the stress tests performed), also includes measurable and non-measurable symptoms ahead of contingencies, allowing for systematic monitoring of the sources of liquidity crises.

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

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

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

As part of its analysis, the Bank also carries out a sensitivity analysis for individual factors generating liquidity risk, as well as reverse tests. The contingency liquidity plan shall be regularly reviewed and updated so as to ensure that the Bank is operationally prepared to activate potential measures that can be taken in the event of a liquidity risk. The contingency liquidity scenario analysis is carried out a semi-annual basis and stress tests – on a monthly basis. The assumptions adopted for stress tests are regularly reviewed to account for conclusions of the scenario-based analysis contingency liquidity analysis. The assumptions for each stress test scenario reflect the expected negative effects of the COVID-19 pandemic, such as increased outflow of cash and deposits, increased number of terminations of term deposits and higher EUR/PLN and CHF/PLN exchange rates. 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 the interbank market, the Bank enters into transactions with financial counterparties under agreements based on ISDA and GMRA master agreements or their equivalents prepared by the Polish Bank Association.

Some of the agreements include provisions relating to a downgrade or withdrawal of credit rating by an internationally recognised credit rating agency. These provisions allow the counterparty to exercise the right to terminate the agreement early. Another clause with a similar effect is the reduction in the number of shares held by the National Fund for Environmental Protection and Water Management to below 51% or with respect to the shares value to a level which deprives the Fund of the right to 51% of the total vote at the General Meeting.

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

In 2020, similarly as in 2019, the BOŚ Group's liquidity situation was systematically monitored and remained at a safe level.

2.2. Interest rate risk

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

Interest rate risk in the banking book

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

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

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

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

- the repricing gap that represents values of assets, liabilities and balance items sensitive to the exchange rates changes in periods of maturity or of revaluation;
- 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,
- 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;
- 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,
- yield curve risk analysis, which aims to estimate the impact on the economic value of equity of unparallel movements in the shape of the yield curve,
- the risk of client options' analysis, which aims at assessing the impact of options realized by clients and embedded in interest products on the financial result of the bank;
- 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,
- the level of internal capital for interest rate risk in the banking book.

Measures of interest rate risk in the banking book

In order to control the interest rate risk in the banking book, the Bank uses two measures: sensitivity of net interest income to interest rate movements by +/-100 bps (NII) and sensitivity of the economic value of capital to interest rate movements by +/-200 bps (EVE). These measures are the basis for determining the Bank's appetite for interest rate risk in the banking book, which is subject to approval by the Supervisory Board, and a system of limits and warning values to control this risk at the Bank. 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 applied, 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 2020 and December 31st 2019:

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

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

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

Results of SOT for the six standard shock scenarios specified in the Guidelines are presented in the table below as at December 31st 2020 and December 31st 2019, along with their change.

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

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

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

- 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 $\pm 5\%$, $\pm 10\%$ and $\pm 25\%$,
 - scenarios of cumulative changes in the parallel shifts of interest rate curves by ± 100 bps and ± 500 bps, and foreign exchange rates by $\pm 5\%$, $\pm 10\%$ and $\pm 25\%$,
- 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 $\pm 5\%$, $\pm 10\%$ and $\pm 25\%$,
 - scenarios of cumulative changes in the parallel shifts of interest rate curves by ± 200 bps and ± 500 bps,

and foreign exchange rates by $\pm 5\%$, $\pm 10\%$ and $\pm 25\%$,

- sensitivity of revaluation reserve in scenarios of interest rates movements within the range [500 p.b., +500 p.b.];
- 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:

- 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,
- for the NII:
 - tests to show when the projected interest income falls below zero,
 - tests designed to identify areas of vulnerability to risks arising from collateral and risk management strategies and behavioural responses of clients.

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

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

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

Results of monitoring the banking book interest rate risk are 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.

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 budget, 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 in the trading book, the Bank applies:

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

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

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

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

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

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

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

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

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

In the trading book, the Bank examines the impact of extreme adverse movements of market interest rates on the Bank's profit or loss as well as the volatility of interest rates over 250 business days and the correlation between the interest rate volatility and VaR using both the historical and parametric methods. The historical method took into account the volatility of interest rates caused by the COVID-19 pandemic.

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

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

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

The three rate cuts by the Monetary Policy Council made in response to the COVID-19 pandemic did not lead to any material increase in the interest rate risk of the trading book. The measures of interest rate risk in the

trading book were monitored on an ongoing basis, and although their levels generally increased they remained within the limits applied by the Bank. The interest rate cuts had an adverse effect on profit or loss from interest rate transactions in the trading book due to a decrease in the fair value of IRS transactions in this portfolio.

2.3. Currency risks

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

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

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

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

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

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

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

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

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

	10-day VaR						Stress tests of the Group –
				Bank	DM	Group	increase/decrease of foreign exchange rates by 30%
	mean	max	min	as at	as at	as at	as at
December 31st 2020	230	966	8	259	2,498	2,756	-7,127
December 31st 2019	213	575	5	133	3,804	3,767	-25,289

In order to verify the value-at-risk model, the 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 foreign exchange risk limits in the trading book includes: the 10-day VaR limit,

- limits of the amounts of total and individual positions in main foreign currencies (applicable both through the day and at the end of the day),
- daily and monthly trailing loss limits for currency exchange transactions.

Limit utilization control is performed on every working day and with respect to the limits for the overall position and individual positions for the main currencies of the Bank also during the day. During the day, the Bank also monitors additional limits for client transactions, within the amount limits for foreign exchange positions. Information on the level of utilization of limits is regularly reported to the management of BOŚ S.A.

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

Stress tests analysis is performed by the Bank on a monthly basis and it covers formation of the foreign exchange risk level in the event of materialization of extreme changes in risk factors. The Bank tests mainly the impact of extremely 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:
 - d. historical increase/decrease in exchange rates against PLN (including fat tails),
 - e. increase/decrease in exchange rates of cross currency pairs EUR/CHF and EUR/USD.
2. parametric:
 - a. increase/decrease in exchange rates against PLN by 30%,
 - b. increase in volatility of foreign exchange rates,
 - c. extremely adverse changes in the correlation of foreign exchange rates.

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

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

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

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

2.4. Other market risks

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

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

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

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

The COVID-induced volatility of equity and commodity prices and investment certificates had no material adverse effect on the level of other types of market risk. Their measures were monitored on an ongoing basis, and although their levels slightly 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 operational risk reporting, in particular on the operational risk level and profile, the use of operational risk limits and the amount of losses arising from operational risk events.

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

As part of actions aimed at streamlining the organization of the operational risk management at the Bank, in 2020, the Operational Risk Management Policy and Rules at BOŚ S.A. were reviewed and amended to verify the effectiveness of the system. The rules of determining the capital requirement for operational risk in accordance with the standardised approach were also reviewed and amended.

Every new employee of the Bank receives an obligatory e-learning training in operating risk on the rules of functioning of the database of operational risk incidents (OPRISK!) and the operational risk management system of BOŚ S.A.

In 2020, a number of tasks were performed in the area of organization of the operational risk management system, including: (1) review and approval of the operational risk appetite and tolerance limits for 2020, (2) periodic monitoring of utilization of the limits adopted, (3) development of the Operating Risk Map for 2020 on the basis of self-assessment of organizational units of the Bank's Head Office, (4) assessment of significance of subsidiaries of the BOŚ Group in terms of operating risk generated. Last year, the first stage of work on adapting the Bank to the EBA Guidelines was completed, as a result of which, among other things, the regulations governing the implementation of the Bank's procurement process with respect to banking outsourcing were amended, the agreements concluded with external entities were reviewed to change, if necessary, the classification of agreements previously not considered as outsourcing agreements, and to separate outsourcing agreements meeting the criteria of a critical or material agreement contained in the EBA outsourcing guidelines.

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

In 2020, there were no operational risk events that would have a material effect on security of the Bank's and Group's operations. No significant threats related to operational risk, arising from the COVID-19 pandemic, were identified. Operational risk events were investigated and measures aimed to reduce potential losses were implemented.

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:

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

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

Compliance risk management at the Bank aims to:

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

The Bank identifies the following key compliance areas:

- preventing illegal activities at the Bank, including counteracting money laundering and financing terrorism,
- protecting information,
- implementing and monitoring compliance with ethical standards,
- accepting or giving benefits and gifts,
- advertising and marketing activities,
- offering products,
- client complaints,
- managing conflicts of interest.

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

IV. ADDITIONAL INFORMATION

1. Assessment of financial resources management

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

The core ability of the BOŚ S.A. to repay liabilities is measured by its liquidity and capital adequacy ratio. The Bank made decisions in advance aimed at acquiring long-term finance and increasing stability of its deposit base that ensured the required balance sheet structure and facilitated performing the 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 described in Note 48 to the full-year consolidated financial statements of the BOŚ Group for the financial year ended December 31st 2020.

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

4. SEASONAL OR CYCLICAL NATURE OF ACTIVITY

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

5. The Bank's agreements

5.1. Significant agreements

On May 31st 2020, a credit facility agreement was signed with Grupa Azoty Polyolefins S.A. related to the construction of a new propane dehydrogenation unit ("PDH unit"); a new polypropylene unit ("PP unit"); PP logistics infrastructure system with auxiliary systems and inter-unit connections, and the handling and storage terminal with port facilities to unload and store propane and ethylene from sea ships as part of a syndicate (Alior Bank S.A., BGK, BOŚ S.A., PEKAO S.A., BNP S.A., European Bank for Reconstruction and Development, Industrial and Commercial Bank of China (Europe) S.A. Poland Branch, mBank S.A., PKO BP S.A., PZU S.A., PZU FIZAN BIS 2, PZU na Życie S.A., Santander Bank Polska S.A.), for a total amount of USD 537,700,000 and EUR 487,800,000 – investment credit facility, USD 180,000,000 – working capital facility, and PLN 150,000,000 – VAT financing facility.

BOŚ S.A.'s interest in the investment credit facility is USD 21,495,000, and EUR 19,500,000, and in the working capital facility – USD 10,000,000 (the aggregate amount is over PLN 212,858 thousand). BOŚ does not participate in the financing of VAT. The investment credit facility expires on November 29th 2030 (with an option to extend it to December 15th 2035), and the term of the working capital facility expires on November 29th 2025. The agreement provides for collateral in the form of mortgage and other standard security for such transactions. The facility bears interest at EURIBOR and LIBOR plus the Bank's margin. The pricing terms of the credit facilities do not differ from standard market terms applied in transactions of this type. By Resolution No. 4/2020 of January 22nd 2020, the Supervisory Board of BOŚ approved the execution of the transaction, as the Chairman of the Supervisory Board of BOŚ S.A. also serves as President of the Management Board of Grupa Azoty S.A. of Tarnów, the parent of the Borrower.

On October 7th 2020, an annex was signed to the credit facility agreement concluded with Polskie Linie Lotnicze LOT S.A., increasing the available financing amount to a total of PLN 220m and shortening the financing period to December 31st 2020. The facility was used to finance the current economic needs arising from the COVID-19 pandemic and the financial situation of Polskie Linie Lotnicze LOT S.A. as a result of the pandemic. In addition to the standard security package used by the Bank, the facility was secured with a PLN

cash deposit established by a third party under Art. 102 of the Banking Law, for up to 90% of the facility amount. The working capital facility bears interest at a rate equal to WIBOR plus the Bank's margin. The pricing terms of the credit facility did not differ from standard market terms applied in transactions of this type. The credit facility was repaid.

5.2. Agreements with the Central Bank and regulatory bodies

In 2020, the Bank did not conclude any new agreement with the Central Bank or regulatory bodies.

5.3. Agreements for audit of financial statements

Body selecting the independent auditor

The audit firm was selected by the Supervisory Board of Bank Ochrony Środowiska S.A., which on May 22nd 2019 adopted Resolution No. 23/2019 on selection of the independent auditor to audit the full-year financial statements of BOŚ S.A. and the full-year consolidated financial statements of the BOŚ Group and to review the half-year financial statements of BOŚ S.A. and half-year consolidated financial statements of the BOŚ Group for years 2019-2021.

Agreements with the independent auditor

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

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

On April 19th 2021, an annex was signed to the agreement for audit of financial statements adding assurance services to the scope of the auditor's tasks. As part of the assurance engagement, the auditor is to express an opinion on the compliance of the consolidated financial statements with the requirements of the Regulation on the regulatory technical standards of the specifications of the single electronic reporting format (ESEF).

5.4. Auditor's fee

Fees (VAT-exclusive amounts) paid or payable for the financial year 2020 to MAZARS AUDYT Sp. z o.o. as the entity authorized to audit the financial statements:

1. BOŚ S.A.

Review of the financial statements for the first half of 2020	PLN 114 thousand
Audit of the full-year financial statements for 2020	PLN 331 thousand.
Other services	PLN 12 thousand

2. Dom Maklerski BOŚ S.A.

Audit of the financial statements	PLN 42 thousand
Review of the financial statements	PLN 23 thousand
Other services	PLN 12 thousand

3. BOŚ Leasing EkoProfit S.A.

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

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

1. BOŚ S.A.

Review of the financial statement for the first half of year 2019	PLN 114 thousand
Audit of the full-year financial statements for 2019	PLN 322 thousand

2. Dom Maklerski BOŚ S.A.

Audit of the financial statements	PLN 42 thousand
Review of the financial statements	PLN 28 thousand
Other services	PLN 12 thousand

3. BOŚ Leasing EkoProfit S.A.

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

6. Non-recurring factors and events

The following events had a significant impact on the financial condition:

- COVID-19 pandemic – mainly as a result of the Monetary Policy Council's decisions of March 17th, April 8th and May 28th 2020 to reduce interest rates by a total of 140 basis points, which translated into a material deterioration of the Bank's net interest income in 2020 and higher risk of impairment losses on the loan portfolio.
- Significant increase in court cases concerning loans denominated in CHF and the impact of the introduction of solutions for the entire sector following the judgment of the Court of Justice of the European Union ("CJEU") in case No. C-260/18 brought by Kamil Dziubak, Justyna Dziubak against Raiffeisen Bank International. Claims made in lawsuits based on agreements for denominated credits and loans, in general, pertain to recognition of such credit/ loan agreements as invalid, alternatively to recognition as abusive of denomination (conversion) and insurance clauses, regulating the bridge financing security (low down payment insurance and credit insurance until the mortgage is established).

In 2020, in BOŚ S.A., no other significant events took place that would influence the assessment of its human resources, assets, financial condition, financial result and changes in these and for assessment of capability of the Company to settle its liabilities.

7. Court proceedings

Lawsuits - total

As at December 31st 2020, Bank Ochrony Środowiska S.A. was:

- a plaintiff in 824 lawsuits for a total amount of : PLN 93.4m.
- a defendant in 378 lawsuits for a total amount of : PLN 91.4m.

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

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

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

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

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

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

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

On October 3rd 2019, the Court of Justice of the European Union ("CJEU") issued a preliminary ruling in Case C-260/18 Kamil Dziubak, Justyna Dziubak v Raiffeisen Bank International AG, Vienna, conducting business in Poland in the form of a branch under the name Raiffeisen Bank International AG Branch in Poland, formerly Raiffeisen Bank Polska S.A., with its registered office in Warsaw, which interprets the provisions of Council Directive 93/13/EEC of April 5th 1993 on unfair terms in consumer contracts, in response to questions referred for a preliminary ruling by the referring court after analysing the provisions of a credit agreement indexed to CHF.

According to the verdict, the CJEU did not address the issue of the prohibited nature of contractual clauses, indicating that it is for the national courts to examine the existence of all the indication of abusiveness and to assess contractual provisions in each individual case separately. At the same time, the CJEU did not rule out the possibility that the national court could recognise the possibility of the agreement's continued operation without the indexation mechanism (which would mean that the loan would be treated as a PLN loan bearing interest at LIBOR), however in the CJEU's opinion this solution was deemed to be uncertain. The CJEU ruled out the possibility of supplementing the content of a contract after eliminating abusive clauses with rules stemming from the general provisions of national law. However, the CJEU confirmed that it is possible to fill in gaps in the contract with rules resulting from an express dispositive provision or other rules agreed upon by the parties.

Since the CJEU verdict, there has been an increase in the number of court cases involving loan agreements linked to foreign exchange rates. The reasons for this phenomenon can be found in the intensified marketing campaign by entities representing borrowers in court proceedings, the constant presence of the subject matter in the media, as well as the evolving trends the national case law.

Most of the court judgments issued following the CJEU ruling of October 3rd 2019 are not favourable of banks, but the case law continues to be inconsistent in this respect. Some of the courts hearing cases involving foreign exchange-linked mortgages have made further requests to the CJEU for preliminary filings. The position of the CJEU in this respect may have an impact on court rulings in the future.

The Bank monitors domestic case law on an ongoing basis when assessing the legal risks of foreign currency-indexed loans and takes into account in its analyses that the CJEU judgment of October 3rd 2019 and rulings by Polish courts in similar cases would increase the number of court proceedings and increase the value of claims sought.

As at the end of 2020, there were 307 court cases pending against the Bank concerning loans and advances denominated mainly in CHF, with the total value of the claims sought of PLN 63,664 thousand. In general, the claimants demand that loan agreements denominated in foreign currencies be recognised as invalid or, alternatively, that the denomination (currency translation) clauses be found/ruled abusive.

At present, it is still difficult to assess the final impact of the CJEU verdict on rulings by national courts in cases relating to loans linked to foreign currencies. A clear position of the Supreme Court could be of major importance in this respect.

A hearing of the full bench of the Supreme Court's Civil Chamber was set for May 11th 2021 (previously scheduled for March 25th and then April 13th) on the response to the legal questions presented by the First President of the Supreme Court, concerning significant issues related to the non-uniform decisions of the courts in cases of loans linked to foreign currencies. The date of the resolution of the panel of seven Supreme Court judges concerning the response to legal issues raised by the Financial Ombudsman, previously announced for April 15th this year, has also been changed to May 7th. The issues raised by the Ombudsman partially overlap with those presented by the First President of the Supreme Court.

At the same time, in January 2021 a group of banks, including Bank Ochrony Środowiska S.A., acting on the basis of assumptions of the proposal of the Chairman of the Polish Financial Supervision Authority (announced in December 2020), commenced cross-sectoral consultations to establish a catalogue of best practices to seek voluntary settlement with clients whereby loans linked to foreign currencies would be settled as if they had been originally denominated in the Polish zloty with interest accruing at WIBOR plus reasonable margin.

Due to the significant impact of the Settlement Programme prepared in accordance with the assumptions of the PFSA Chairman's proposal on the Bank's financial condition, the Management Board of the Bank submitted to the General Meeting a draft resolution on consent of the shareholders to enter into settlement agreements with consumers and on the rules of establishing and approving the terms of such agreements.

As at the date of these financial statements, the Bank has not implemented a general programme to offer settlements to its clients, and the Settlement Programme has not been voted on at the Annual Meeting. Nevertheless, when estimating the provision for court proceedings and claims for legal risk related to foreign currency mortgage loans, the Management Board of the Bank took into account a scenario where in justified cases settlement agreements are entered into with the Bank's clients, given the gradual emergence of the jurisprudence line that is unfavourable for banks and the high estimated willingness of the clients to reach agreement with the Bank.

As at December 31st 2020, the total amount of the provision was PLN 399m, of which PLN 376m was disclosed as a provision for court proceedings and legal risk of claims related to foreign currency mortgages, and the balance of PLN 23m was disclosed as additional allowances for expected credit losses.

For a description of the provision for legal risk related to loans denominated in foreign currencies, see Note 4.6. to the full-year consolidated financial statements of the BOŚ Group for the year ended December 31st 2020.

8. Changes in significant management policies

In 2020, there were no changes in significant management policies at the Bank.

9. Information about dividend

No dividend was paid or declared in 2020.

On June 17th 2020, the Annual General Meeting of Bank Ochrony Środowiska S.A. allocated the Bank's net profit for the period January 1st – December 31st 2020 of PLN 80,661,757.23 to statutory reserve funds.

10. Value of collateral

As at the end of 2020, 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 26,539.8m. Real estate mortgages remain the most important type of collateral (PLN 12,165.3m, or 45.8%). Pledges amounted to PLN 9,363.2m and accounted for 35.3% of the total value of collateral. Guarantees and sureties amounted to PLN 4,034.4m

and represented 15.2% of the total value of collateral. Assignments of receivables from business partners from OECD countries amounted to PLN 493.4m and represented 1.9% of the total value of collateral. Other types of collateral do not exceed 1% of the total value of collateral.

11. Events after the reporting date

Changes in the composition of the Management Board and Supervisory Board

At its meeting on February 10th 2021 the Supervisory Board passed resolutions (Current Report No. 3/2021) to appoint:

- Ms Marzena Koczut as Vice President of the Management Board of BOŚ S.A. with effect as of February 10th 2021,
- Mr Robert Kasprzak as Vice President of the Management Board of BOŚ S.A. with effect as of February 15th 2021.

On February 10th 2021, Ms Marzena Koczut, member of the Supervisory Board, tendered her resignation from the Supervisory Board (Current Report No. 4/2021) upon her appointment as Vice President of the Management Board of the Bank.

On March 3rd 2021, the Polish Financial Supervision Authority gave a unanimous consent to the appointment of Mr Wojciech Hann as President of the Management Board (Current Report no. 7/2021). Accordingly, at its meeting held on March 3rd 2021, the Supervisory Board passed a resolution to appoint Mr Wojciech Hann as President of the Management Board of the Bank for a joint three-year term of office, which commenced on June 18th 2020, i.e., on the day following the date of approval of the Bank's financial statements for the year ended December 31st 2019. Pending consent of the Polish Financial Supervision Authority, Mr Wojciech Hann served as Vice President of the Bank and managed the work of the Management Board.

Calculation of minimum requirement for own funds and eligible liabilities (MREL)

On February 23rd 2021, BOŚ S.A. received from the Bank Guarantee Fund ("BGF") a letter informing the Bank about the new designated MREL level, based on the Bank's financial data as at December 31st 2020 (Current Report No. 5/2021).

On a consolidated basis, the target MREL for the Bank is 12.75% of the total risk exposure amount and 4.50% of the total exposure measure (including 12.35% of the total risk exposure amount and 4.48% of the total exposure measure for own funds and subordinated liabilities).

In the same letter, a linear path was mapped for MREL to reach 11.87% and 12.31% of the total risk exposure amount on January 1st 2022 and January 1st 2023, respectively (and 3% and 3.75%, for the total exposure measure, respectively).

The Bank should meet the interim levels by the end of the calendar year during the period of reaching the MREL target.

The Bank is required to meet the MREL targets as of January 1st 2024.

The BFG also informed the Bank that in each subsequent calendar year the Fund will review the forced restructuring plan and adjust the target MREL to the changing capital requirements of the Bank. The Bank should maintain the level of MREL expressed as a percentage of TREA and TE on a continuous basis, i.e., in line with the changing value of the Bank's TREA and TE.

Affirmation of credit ratings

On March 16th 2021, Fitch Ratings (the Agency) affirmed its rating (Current Report No. 9/2021) and maintained the outlook.

The ratings are presented below:

- Long-term Foreign Currency IDR was affirmed at BB-, with negative outlook,
- Short-term Foreign Currency IDR was affirmed at B,
- National Long-term Rating was affirmed at BBB-(pol), with negative outlook,
- National Short-term Rating was affirmed at F3 (pol),
- Viability Rating was affirmed at bb-,
- National senior unsecured bond rating was affirmed at BBB- (pol),
- National short-term senior unsecured bond rating was affirmed at F3 (pol),
- Subordinated bond rating was affirmed at BB (pol).

The definitions of ratings are available on the Agency's website at <https://www.fitchratings.com>.

The affirmation of the ratings reflects the Agency's view that the legal risk associated with the Bank's existing foreign currency mortgage exposures has increased since the Bank's last ratings review. However, the final effect on profit or loss is still highly uncertain. The Agency also expects that more information will be available after the announcement of the Supreme Court judgments and after the Bank makes final decisions regarding its participation in the voluntary conversion programme as proposed by the Chairman of the Polish Financial Supervision Commission.

V. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS

1. Principles of corporate governance

1.1. Corporate governance rules applicable to BOŚ S.A. and where the text of the rules is publicly available

(This statement has been prepared in accordance with Par. 70.2.6.5 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018).

In 2020, BOŚ S.A. complied with the corporate governance principles set out in the Code of Best Practice for WSE Listed Companies 2016, attached as an appendix to Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of October 13th 2015, except for the rules set out in Section 1.2.

The scope of application of governance rules has been specified in Resolution 20/2016 of the Ordinary General Meeting of BOŚ S.A. of June 23rd 2016 on the scope of application by BOŚ S.A. of the governance rules contained in "Good Practices of Companies Listed on the WSE 2016". Information on the Bank's compliance with the recommendations and principles contained in the Code of Best Practice for WSE Listed Companies 2016 was published in Current Report No. 24/2014.

Both the text of 'Best Practice for WSE Listed Companies 2016' and information on the Bank's compliance with the recommendations and principles contained therein are available in the Investor Relations section of the Bank's website <https://www.bosbank.pl/informacje-korporacyjne/relacje-inwestorskie/lad-korporacyjny> which also includes 'Statement of compliance with corporate governance standards at BOŚ S.A. in previous years.

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

Management Board of BOŚ S.A. – Resolution No. 108/2018 of May 8th 2018 to adopt the Corporate Governance Rules for Regulated Entities issued by the Polish Financial Supervision Authority;

Supervisory Board of BOŚ S.A. – Resolution No. 31/2018 of May 16th 2018 on the scope of application by the Supervisory Board of BOŚ S.A. of the 'Corporate Governance Rules for Supervisory Institutions' issued by the Polish Financial Supervision Authority.

General Meeting of BOŚ S.A. – by virtue of Resolution No. 28/2018 of the Annual General Meeting of Bank Ochrony Środowiska S.A. of June 19th 2018 on adopting by Bank Ochrony Środowiska S.A. of the "Principles of Corporate Governance for Supervised Institutions", issued by the Polish Financial Supervision Authority.

The information on adoption of the Principles of Corporate Governance for Supervised Institutions, issued by the Polish Financial Supervision Authority, by Bank Ochrony Środowiska S.A. was made available on the Bank's web page in the 'Investor Relations' section.

1.2. Information on non-compliance with certain corporate governance rules set forth in Best Practice for WSE-Listed Companies 2016 and Principles of Corporate Governance for Supervised Institutions issued by the PFSA

BOŚ S.A. did not comply with the following corporate governance rules introduced by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of October 13th 2015:

- I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:
- I.Z.1.15. information containing a description of the diversity policy of the Company in relation to the Company authorities and its key managers; the description should include such components of the diversity policy as gender, education field, age, professional experience, as well as the purposes of the diversity policy adopted and the mode of its implementation in a given reporting period; if the Company has not adopted and implemented a diversity policy, it publishes a justification for this decision on its Web page.

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

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

- IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

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

In 2020, the Bank applied all of the "Principles of Corporate Governance for Supervised Institutions" published by the PFSA with the exception of § 8.4, stating as follows: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting."

The Bank has analysed the possibility of participation of shareholders in general meetings using electronic communication tools as illustrated by the example of the Ordinary General Meeting of the Bank in 2020. Taking

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

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

2. Shareholding structure and rights attached to shares

2.1. Shareholders holding directly or indirectly 5% or more of total voting rights at the Bank's General Meeting

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

- The 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 the shares are ordinary bearer shares with the par value of PLN 10 per share.

2.2. Treasury shares

As at December 31st 2020, the Bank held 37,775 treasury shares, representing 0.04% of the share capital and 0.04% of total voting in the Bank.

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

2.3. Agreements concerning future changes in the shareholding structure

The Bank has no information on 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 specified in the Articles of Association of the Bank and

- 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 an authorized plenipotentiary or in person, vote on resolutions concerning their liability to the Company of any kind, including discharge from duties to the Company and any litigations between such shareholder and the Bank. However, such shareholder, acting as an authorized plenipotentiary of another person, may vote on passing of resolutions that are of concern to them.
- Subject to cases referred to in the Code of Commercial Companies or the Articles of Association of the Bank, a General Meeting is valid regardless of the number of shares represented.

- Resolutions are passed by the ordinary majority of votes, unless provisions of the Code of Commercial Companies or the Articles of Association of the Bank provide for more strict voting rules.
- Voting during a General Meeting is open.
- A secret voting is ordered for elections and requests for dismissal of members of the Bank's governing bodies or liquidators, for charging them with liability, as well as in personal matters. Moreover, a secret voting is obligatory if demanded even by one of the shareholders present or represented during the General Meeting.
- The General Meeting may pass a resolution on revoking of secrecy of voting in matters relating to appointment of any committee by the General meeting.

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

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

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 2020, the composition of the Supervisory Board was as follows:

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

Members of the Supervisory Board

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

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

- Wojciech Wardacki – Chairman of the Supervisory Board
- Katarzyna Lewandowska – Deputy Chair of the Supervisory Board

- Andrzej Matysiak – Secretary

Members of the Supervisory Board

- Iwona Duda
- Janina Goss
- Ireneusz Purgacz
- Radosław Rasała
- Piotr Sadownik
- Paweł Sałek
- Emil Ślązak

In 2020, the following changes occurred in the composition of the Supervisory Board:

1. Iwona Duda tendered her resignation from the Supervisory Board with effect as of May 12th 2020;
2. Katarzyna Lewandowska tendered her resignation from the Supervisory Board with effect as of June 15th 2020,
3. on June 16th 2020 and then on September 15th 2020 the Supervisory Board delegated Emil Ślązak, Member of the Supervisory Board, to temporarily perform the duties of President of the Management Board – for the period from June 18th 2020, not longer than until September 16th 2020, and then for the period from September 17th 2020, not longer than until December 16th 2020. The period of the delegation of Emil Ślązak, ended on November 9th 2020, i.e., upon appointment of Wojciech Hann as Vice President of the Management Board to manage the activities of the Management Board;
4. on August 5th 2020:
 - the Supervisory Board appointed Ireneusz Purgacz as its Deputy Chairman;
 - The Extraordinary General Meeting (convened for August 5th 2020 and subsequently continued after adjournment on August 17th and August 25th 2020):
 - removed Radosław Rasała from the Supervisory Board, with effect as of August 5th 2020;
 - appointed Przemysław Bednarski to the Supervisory Board, with effect as of August 5th 2020;
 - appointed Piotr Wróbel to the Supervisory Board, with effect as of August 5th 2020;
 - appointed Marcin Jastrzębski to the Supervisory Board, with effect as of August 25th 2020;
5. Przemysław Bednarski tendered his resignation with effect from the Supervisory Board, with effect as of October 17th 2020;
6. The Extraordinary General Meeting of BOŚ S.A. convened for October 14th 2020 and continued after adjournment on October 19th 2020:
 - removed Andrzej Matysiak from the Supervisory Board, with effect as of from October 19th 2020,
 - appointed the following persons to the Supervisory Board, with effect as of October 19th 2020:
 - Leszek Banaszak,
 - Robert Czarnecki,
 - Marzena Koczut;
7. on October 28th 2020, the Supervisory Board appointed Paweł Sałka as Secretary of the Supervisory Board;
8. on November 5th 2020, Piotr Sadownik tendered his resignation from the Supervisory Board with effect as of the date of conclusion of the Supervisory Board meeting held on November 6th 2020;
9. on December 16th 2020 – made a decision to delegate Marzena Koczut, Member of the Supervisory Board, to temporarily perform the duties of Member of the Management Board for a period from December 21st 2020 until the date of completion of the qualification procedure, but not longer than until March 21st 2021.
10. On February 10th 2021, Ms Marzena Koczut, member of the Supervisory Board, tendered her resignation from the Supervisory Board (Current Report No. 4/2021).

Independence of the Supervisory Board members

As at December 31st 2020, the following members of the Supervisory Board:

- met the independence criteria: Mr Wojciech Wardacki, Mr Ireneusz Purgacz, Mr Paweł Sałek, Mr Leszek Banaszak, Ms Janina Goss, Mr Marcin Jastrzębski, Mr Emil Ślązak,
- did not meet the independence criteria: Mr Robert Czarnecki, Ms Marzena Koczut, and Mr Piotr Wróbel.

The rules of operation of the Supervisory Board of the Bank

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

Mandates of members of the Supervisory Board expire as of the date of the General Meeting approving the report on activity and the financial statements for the last full 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:

- approval of the business strategy of BOŚ S.A. and the Bank’s annual budgets,
- approval of the general acceptable risk level specified by the Management Board of the Bank and strategies for management of the Bank and risk management approved by the Management Board of the Bank,
- approval of the policy for estimation of internal capital and capital management,
- approval of the remuneration policy,
- approval of the compliance policy of the Bank,
- approval of the information policy rules of the Bank,
- approval of resolutions of the Management Board, concerning the Bank’s organizational structure, provided that the competences to create and liquidate organizational units of the Bank are within the scope of competences of the Management Board,
- 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,
- assessment of 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,
- assessment of 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,

- determination of conditions of employment, as well as conditions of legal relationships other than the employment relationship, for members of the Management Board of the Bank,
- approval of the regulations for granting credits, cash loans, bank guarantees or sureties to members of the Bank's governing bodies and persons occupying managerial positions at the Bank, as well as other persons listed in art. 79 of the Banking Law Act,
- passing of resolutions concerning consent for granting credits, cash loans, bank guarantees or sureties to members of the Bank's governing bodies and other persons listed in art. 79a of the Banking Law Act,
- approval of requests of the Management Board of the Bank concerning acquisition of stocks and shares in companies of nominal value exceeding in total with stocks and shares in these companies already owned by the Bank the equivalent of 5% of the share capital of the Bank, excluding shares of companies admitted to public trading,
- selection of the independent auditor to conduct an audit of the financial statements and other experts,
- supervision of introduction at the Bank of a management system, which consists of the risk management system and the internal control system, as well as assessment of adequacy and efficiency of these systems,
- assessment of periodic information on the banking risk level and the quality of management of this risk,
- assessment of periodic information on irregularities found and conclusions based on internal audits conducted, as well as activities conducted for the purpose of their elimination or implementation,
- approval of the mode of commencement and termination of the employment relationship with persons managing the internal audit unit and the compliance unit, as well as approval of remuneration of these persons,
- approval of the policy for assessment of adequacy of candidates for members and members of the Management Board, as well as assessment of adequacy of candidates for members and members of the Management Board,
- approval of the internal structure of competences of the Management Board,
- approval of the internal audit unit regulations (internal unit card) and approval of the internal unit plan;
- approval of regulations of the compliance unit and its annual action plans.

Moreover, the competences of the Supervisory Board include:

- preparation of an annual report on the activities of the Supervisory Board with a brief assessment of the Bank's position (including assessment of the internal control system and the system for managing risks that are material to the Bank), to be submitted to the General Meeting for approval,
- analysis and assessment of information received from the Management Board on any issues significant from the perspective of the Bank's operations,
- supervision of functioning of the Bank's internal control and risk management systems, as well as the course of financial reporting, including:
 - appointment of the Internal Audit Committee, passing of the regulations to specify the organization and tasks of this Committee, as well as its composition,
 - approval of the Bank's internal regulations, concerning in particular: the functioning of the Bank's internal control system, functioning of the risk management system in the Bank and management of individual types of banking risk,
 - analysis and assessment of periodic reports presenting the results of the internal audits conducted,
 - analysis and assessment of periodic information on effectiveness of the internal control system,
 - analysis and assessment of periodic reports on risks associated with the operations conducted and the modes of management of these risks,
 - analysis and assessment of full-year Director's Reports on the operations of the Bank and its Group,
 - analysis and assessment of full-year financial statements of the Bank and its Group, as well as information from the auditor, concerning the course and results of audits of these statements,
- appointment of the Remuneration and Nomination Committee, passing of the regulations to specify the organization and tasks of this Committee, as well as its composition,
- appointment of the Ecology Committee, passing of the regulations to specify the organization and tasks of this Committee, as well as its composition,

- appointment of the Risk Committee, passing of the regulations to specify the organization and tasks of the Committee, as well as its composition,
- appointment of the Strategy and Development Committee of the Bank, passing of the regulations to specify the organization and tasks of the Committee, as well as its composition,
- consideration of applications of the Management Board, concerning the intention of the Bank to enter into significant contracts/ transactions with related entities, with the exception of typical transactions conducted in accordance with market terms and conditions within the framework of business operations with a related entity, in which the Bank holds a majority of share capital,
- development of the annual plan of work of the Supervisory Board,
- supervision of compliance of the Bank with its obligations related to acts referred to in Art. 70.2 of the Act on Trading in Financial Instruments.

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

At least 7 days prior to the Supervisory Board meeting date, 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 passing resolutions (except for voting on any personal matters and those placed on the agenda during the Supervisory Board meeting) in writing through another Board member or by means of remote communication.

Under exceptional circumstances, the Supervisory Board may adopt resolutions apart from meetings, in writing or by means of remote communication. A resolution is valid if all members of the 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 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 Nomination Committee, the Ecology Committee, the Risk Committee, and the Strategy and Development Committee. The Board members may also form other committees.

The Internal Audit Committee

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

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

In 2020, the Committee performed the tasks defined as belonging to the Audit Committee, among others, in the following documents:

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

Moreover, in its activity 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 March 6th 2017 on risk management and internal control systems, remuneration policy and detailed method of calculating internal capital in banks,
- 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,
- Good Practice for WSE-Companies Listed 2016,
- Recommendations and guidelines of the PFSA on functioning of the Audit Committee,
- Best practices for public-interest entities regarding the rules of appointment, composition and operation of the audit committee 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 (consolidated text: (Dz.U. of 2017, item 1768, as amended) with secondary legislation, including in particular, the regulation of the Minister of Finance of May 29th 2018 on specific technical and organisational requirements applying to investment firms, banks referred to in Art. 70.2 of the Act on Trading in Financial Instruments, and custodian banks (Dz.U. of 2018, item 1111).

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

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

Composition of the Committee and its changes in the last financial year

In 2020, the function of the Chair of the Internal Audit Committee was performed at all times by the Chair of the Supervisory Board of the Bank. Composition of the Internal Audit Committee throughout the year underwent changes, that is:

- Wojciech Wardacki – Chair of the Committee (from January 1st to December 31st 2020),
- Emil Ślężak – Deputy Chair of the Committee (from January 1st to December 31st 2020),
- Iwona Duda – Member of the Committee (from January 1st to May 12th 2020),
- Katarzyna Lewandowska – Member of the Committee (from January 1st to June 15th 2020),
- Ireneusz Purgacz – Member of the Committee (from January 1st to December 31st 2020),
- Przemysław Bednarski – Member of the Committee (from August 5th to October 17th 2020),
- Leszek Banaszak – Member of the Committee (from November 6th to December 31st 2020).

In the reporting period, the Supervisory Board assessed the suitability of the Internal Audit Committee members and made a collective assessment of the Committee, using the recommendation of the Remuneration and Nomination Committee. Based on the submitted statement and the competence self-assessment form provided, the Remuneration and Nomination Committee verified the Committee members' knowledge of and competence in accounting, audit of financial statements, the industry in which BOŚ S.A. operates, and their compliance with the independence criteria. All members of the Remuneration and Nomination Committee met the criteria.

In 2020, meetings of the Internal Audit Committee were convened as necessary, however, at least once in every quarter. In 2020, there were 13 meetings of the Internal Audit Committee.

The Risk Committee

On January 7th 2016, the Supervisory Board adopted Resolution No. 9/2016 to appoint the Risk Committee, which consisted of Members of the Bank's Supervisory Board. The Risk Committee supports the Supervisory Board in supervision of risk. The Committee performs the tasks provided for in the Act of 29 August 1997 - Banking Law Act (Dz.U of 2019, item 2357, consolidated text of December 5th 2019) in the Articles of Association of the Bank and in resolutions of the Supervisory Board.

Performing its main tasks, the Committee in particular:

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

In 2020, the Committee consisted of:

- Emil Ślężak – Chair of the Committee (from January 1st to December 31st 2020),
- Iwona Duda – Deputy Chair of the Committee (from January 1st to June 16th 2020),
- Katarzyna Lewandowska – Member of the Committee (from January 1st to June 16th 2020),
- Wojciech Wardacki – Member of the Committee (from January 1st to December 31st 2020),
- Radosław Rasała – Member of the Committee (from January 1st to August 5th 2020),

- Andrzej Matysiak – Deputy Chair of the Committee (from June 16th to October 28th 2020),
- Marcin Jastrzębski – Member of the Committee (from September 9th to October 28th 2020),
- Piotr Wróbel – Member of the Committee (from August 5th to October 28th 2020),
- Leszek Banaszak – Deputy Chair of the Committee (from October 28th to December 31st 2020),
- Marzena Koczut – Member of the Committee (from October 28th to December 31st 2020; on December 21st 2020 Ms M. Koczut was delegated to temporarily perform the duties of Member of the Management Board).

The Risk Committee held nine meetings in 2020.

Remuneration and Nomination Committee

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

- Art. 22aa. of the Banking Law Act – with regard to the policy of assessment of adequacy of candidates and members of: the Supervisory Board and the Management Board of the Bank, respectively,
 - regulation of the Minister of Development and Finance of March 6th 2017 on risk management and internal control systems, remuneration policy and detailed method of calculating internal capital, as specified for the committee – with regard to the remuneration policy,
- in particular, including:
1. with regard to the policy of assessment of adequacy of candidates for members of the Supervisory Board and members of the Supervisory Board:
 - issuing of opinions on the draft assessment policy and amendments to this policy,
 - submitting to the General Meeting a report on audit of the documentation gathered and verification of credibility in order to assess the adequacy of a candidate for a member of the Supervisory Board or a member of the Supervisory Board of the Bank,
 - presenting to the General Meeting proposals for individual assessment of adequacy of candidates for members of the Supervisory Board or members of the Supervisory Board, as well as proposing collective adequacy assessment of the Supervisory Board,
 - delivery of feedback to persons being assessed on the assessment results,
 2. with regard to the policy of assessment of adequacy of candidates for members of the Management Board and members of the Management Board:
 - issuing of opinions on the draft assessment policy and amendments to this policy,
 - submitting to the Supervisory Board, a report on audit of the documentation gathered and verification of credibility in order to assess the adequacy of a candidate for a member of the Management Board or a member of the Supervisory Board of the Bank,
 - presenting to the Supervisory Board of proposals for individual assessment of adequacy of candidates for members of the Management Board or members Management Board, as well as proposing collective adequacy assessment of the Management Board,
 - delivery of feedback to persons being assessed on the assessment results,
 3. with regard to the policy of assessment of candidates for key functions at the Bank or persons entrusted with these functions - issuing of opinions on the draft assessment policy and amendments to this policy,
 4. with regard to the remuneration policy - issue of opinions and monitoring of the Bank's remuneration policy and supporting the Bank's governing bodies in shaping and implementation of this policy by:
 - giving opinions on the list of persons with significant influence on the Bank's risk profile and on the annual update of the list,
 - designing remuneration packages for members of the Management Board, including the amount and components of variable remuneration, factors determining variable remuneration and performance evaluation criteria, and recommending them to the Supervisory Board,
 - recommending to the Supervisory Board the award, limitation, withholding, refusal of payment or disbursement of variable remuneration of members of the Management Board,
 - giving opinions on variable remuneration for the managing personnel holding risk-management and compliance positions at the Bank,

- giving opinions on the remuneration policy of the Group and issuing opinions on assessment of the materiality of the subsidiaries' impact on the risk profile of the Bank.

In 2020, the Committee for Remuneration and Nomination consisted of the following members:

- Piotr Sadownik – Chair of the Committee (from January 1st to October 14th 2020); Member of the Committee (from October 14th to November 6th 2020),
- Ireneusz Purgacz – Deputy Chair of the Committee (from January 1st to October 14th 2020); Chairman of the Committee (from October 14th to December 31st 2020),
- Janina Goss – Member of the Committee (from January 1st to December 31st 2020),
- Piotr Wróbel – Deputy Chair of the Committee (from October 14th to December 31st 2020),
- Przemysław Bednarski – Member of the Committee (from October 14th to October 17th 2020),
- Robert Czarnecki – Member of the Committee (from October 28th to December 31st 2020).

Meetings of the Remuneration and Nomination Committee are convened as necessary, however, at least twice a year. In the reporting period, the Committee held 20 meetings.

The Ecology Committee

The Ecology Committee is a body appointed by the Bank's Supervisory Board and supporting the Supervisory Board in the development of environmental activities of BOŚ, including cooperation with the main shareholder, the National Fund for Environmental Protection and Water Management. The Ecology Committee issues opinions and recommendations for the Supervisory Board with regard to the quarterly reports on the Bank's environmental activity and initiatives, as well as the Bank's directions of financing environmental projects. The Committee also takes steps to develop the cooperation between the Bank and the National and Provincial Funds for Environmental Protection and Water Management, and makes recommendations for the Supervisory Board and the Management Board concerning development of the offering of banking products dedicated to environmental protection.

- Andrzej Matysiak – Chair of the Committee (from January 1st to October 19th 2020),
- Paweł Sałek – Deputy Chair of the Committee (from January 1st to October 28th 2020), Chairman of the Committee (from October 28th to December 31st 2020),
- Marzena Koczut – Deputy Chair of the Committee (from October 28th to December 31st 2020; on December 21st 2020 Ms M. Koczut was delegated to temporarily perform the duties of Member of the Management Board),
- Janina Goss – Member of the Committee (from January 1st to December 31st 2020),
- Radosław Rasała – Member of the Committee (from January 1st to August 5th 2020),
- Przemysław Bednarski – Member of the Committee (from August 5th to October 17th 2020),
- Marcin Jastrzębski – Member of the Committee (from September 9th to December 31st 2020).

Meetings of the Ecology Committee are convened by the Chairman when and as needed. The Ecology Committee held four meetings in 2020. The Committee discussed recommendations for the Supervisory Board to approve information on the environmental activities of the Bank with respect to financing of environmental projects, including cooperation with the National and Provincial Funds for Environmental Protection and Water Management, prepared on a quarterly basis. At its meetings, the Committee also discussed the progress of work on BOŚ joining the 'Clean Air' programme operated by the National Fund for Environmental Protection and Water Management and on improvements in the lending process for solar PV farms. The Ecology Committee also initiated the establishment of the Ecology Division at the Bank, which would report to the President of the Management Board.

Strategy and Development Committee of the Bank

In 2020, the Supervisory Board appointed a Strategy and Development Committee composed of members of the Bank's Supervisory Board. The Strategy and Development Committee supports the Supervisory Board with respect to further growth directions for the Bank.

The Committee performs the following tasks:

1. monitors the schedule for preparing the Bank's strategy;
2. monitors the implementation of the Bank's business strategy;
3. presents to the Supervisory Board its position regarding the desired changes in further strategic growth directions for the Bank and the Group;
4. presents its opinions concerning information submitted to the Supervisory Board about:
 - 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 strategy,
5. at the request of the Supervisory Board, performs other tasks supporting the oversight of implementation of the Bank's business strategy.

In 2020, the Committee consisted of the following members:

- Marcin Jastrzębski – Chairman of the Committee (October 28th 2020 – December 31st 2020),
- Robert Czarnecki – Deputy Chairman of the Committee (October 28th 2020 – December 31st 2020),
- Marzena Koczut - Member of the Committee (October 28th 2020 – December 31st 2020; with effect from December 21st 2020 Marzena Koczut was delegated to temporarily serve as Member the Management Board),
- Piotr Wróbel – Member of the Committee (October 28th 2020 – December 31st 2020).

In 2020, two meetings of the Bank's Strategy and Development Committee were held.

3.3. Management Board of the Bank

Management Board

As at December 31st 2020, the composition of the Bank's Management Board was as follows:

- Wojciech Hann – Vice President of the Management Board, responsible for activities of the Management Board
- Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board
- Jerzy Zań – Vice President of the Management Board.
- Marzena Koczut – Member of the Supervisory Board delegated to temporarily perform the duties of Member of the Management Board.

As at December 31st 2019, the composition of the Bank's Management Board was as follows:

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

During the year, the following changes took place in the composition of the Management Board:

1. On June 17th 2020, i.e., the date of the Annual General Meeting of the Bank approving the financial statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2019, the mandates of all members of the Bank's Management Board expired.
2. On June 18th 2020, i.e., on the day following the date of approval by the Annual General Meeting of the Bank of the financial statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2019, having carried out a qualification procedure, the Supervisory Board appointed the Management Board for a new term of office with the following composition:

- Arkadiusz Garbarczyk – as Vice President of the Management Board, First Deputy President of the Management Board
- Jerzy Zań – as Vice President of the Management Board.

Also, since Mr Bogusław Białowąs declared that he would not stand for election to the Management Board for a new term of office and that President of the Management Board had not been elected in the course of the qualification procedure, the Supervisory Board:

- delegated Emil Ślęzak, Member of the Supervisory Board, to temporarily perform the duties of President of the Management Board, for a period not longer than until September 16th 2020;
 - at its meeting held on June 24th 2020 – passed a resolution to initiate a qualification procedure for the position of President of the Management Board;
3. on September 15th 2020 – made a decision to delegate again Emil Ślęzak to temporarily perform the duties of President of the Management Board from September 17th 2020, for a period not longer than until December 16th 2020;
 4. on November 6th 2020, as a result of the qualification procedure – appointed Wojciech Hann as Vice President of the Management Board effective as of November 9th 2020 to manage the activities of the Management Board for a definite period, i.e. until the effective date of the Supervisory Board's resolution on the appointment of President of the Management Board.
Upon the appointment of Wojciech Hann as Vice President of the Management Board, the delegation of Emil Ślęzak, Member of the Supervisory Board, to perform the duties of President of the Management Board ended;
 5. on December 16th 2020 – made a decision to initiate a qualification procedure for the position of Member of the Management Board, and passed a resolution to delegate Marzena Koczut, Member of the Supervisory Board, to temporarily perform the duties of Member of the Management Board for a period from December 21st 2020 until the date of completion of the qualification procedure, but not longer than until March 21st 2021.

Changes in the composition of the Management Board after the reporting date are presented in Part IV section 11.

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

Pursuant to the Articles of Association of BOŚ S.A., members of the Management Board are appointed by the Supervisory Board for a joint three-year term of office. The number of the terms of office is unlimited. The Supervisory Board appoints and removes from office the President, Vice Presidents and Members of the Management Board. The President of the Management Board has the right to request appointment and removal of Management Board members. Resolutions of the Supervisory Board on appointment and removal of the Management Board members are passed by 2/3 of all votes.

Two members of the Management Board, including the President, are appointed subject to approval by the Polish Financial Supervision Authority. The request for approval is submitted by the Supervisory Board. In addition to the President, a Management Board member who has obtained the consent of the Polish Financial Supervision Authority acts as Vice President – First Deputy President of the Bank's Management Board and supervises the management of risks material to the Bank's operations.

The Chairperson of the Supervisory Board, acting under the authority of the Supervisory Board, executes management services contracts with members of the Management Board on behalf of the Bank. The terms of the contracts are defined collectively by the Supervisory Board.

Mandates of the Management Board members expire on or before the date of the General Meeting approving the Directors' Report and the financial statements for the last full financial year in which the members held the office. Mandates of the Management Board members also expire in the event of their death, resignation or removal from the Management Board.

The Management Board makes decisions on any matters not reserved for the other governing bodies of the Bank. In particular, the Management Board of the Bank:

- represents the Bank before courts, public administration bodies and third parties,
- adopts the Bank's business strategies and annual budgets,
- passes resolutions on the Bank's organisational structure and on the establishment and liquidation of the Bank's organisational units,
- passes resolutions on acquisition and disposal of property or an interest in property,
- prepares draft internal regulations whose issue falls within the remit of the General Meeting and the Supervisory Board,
- makes decisions on matters concerning incurring liabilities or disposing of assets where their aggregate value with respect to one entity exceeds 5% of the Bank's own funds approval, with the proviso that the Supervisory Board is authorised to approve the Management Board's requests concerning acquisition of company shares with a par value exceeding – in combination with shares already held by the Bank in a given company – the equivalent of 5% of the Bank's share capital, excluding shares of companies admitted to public trading,
- adopts the Bank's information policy,
- adopts the Bank management strategy and the risk management strategy,
- defines the acceptable overall risk level,
- manages special funds,
- adopts the procedure for the appointment and removal of the person managing the internal audit function and the person managing the compliance function, and determines the amount of remuneration for such persons,
- adopts the remuneration policy,
- adopts a policy for assessing the appropriateness of candidates and key function holders at the Bank and assesses the appropriateness of candidates and key function holders at the Bank,
- adopts the compliance policy of the Bank,
- adopts the policy for calculating internal capital and for capital management purposes;
- adopts the rules of procedure for the internal audit function (Internal Audit Charter) and issues an opinion on the internal audit plan;
- approves the rules of procedure for the compliance function and its annual operation plans.

In addition, the Management Board collectively considers and passes resolutions on:

- convening the General Meeting of the Bank
- matters affecting:
 - development of the Bank's financial results, including in particular budget setting and defining the business strategy for the Bank, and determination of interest rates on cash deposits and borrowings at the Bank,
 - development of the Bank's relationship with the external environment, including in particular matters related to the setting of rules of appointment and removal of attorneys-in-fact and commercial proxies, defining the rules for the Bank's conduct vis-a-vis clients and in the interbank and financial markets, including definition of templates of rules for clients,
 - definition and division of powers at the Bank, including in particular matters related to the determination of credit risk assessment rules and rules of making lending decisions at BOŚ S.A.
- other matters provided for in the Bank's Articles of Association or issues raised by the Management Board members.

The powers of the Management Board as a collective body also include:

- making lending decisions in accordance with applicable internal rules,
- considering periodic information statements on the implementation of the Bank's tasks and its economic, financial, organisational and HR situation,
- definition of the internal division of powers within the Management Board.

The President of the Management Board performs the tasks specified in the Bank's Articles of Association and other internal regulations, including the Rules of Procedure for the Management Board and the Bank's Organisational Rules. In particular, the President of the Management Board:

- directs the overall business of the Bank,
- issues internal orders,
- directs the work of the Bank's Management Board, calls Management Board meetings, approves the agenda and chair the meetings,
- make HR decisions to the extent specified in the Bank's Articles of Association and other internal regulations,
- issue orders relating to all areas of the Bank's business, including matters relating to the Bank's organisational rules and its organisational units,
- manages the internal control process at the Bank,
- coordinates the Bank's environmental policy activities, representing BOŚ S.A. in contacts with representatives of the Parliament, public administration, including the minister competent for the environmental, National and Provincial Environmental Protection and Water Management Funds and other (national) special-purpose funds funded outside the budget.

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.

The Management Board members supervise the business areas assigned to them. As part of the supervision, the Management Board members in particular:

- inspire the activities of the supervised organisational units of the Head Office, in accordance with their respective tasks and the Bank's development directions set out in the business strategies and budgets,
- monitor the course of work and the correctness of activities undertaken in the Head Office units supervised by them, the stage of completion of such work and activities as well as their final implementation and compliance with the law and internal regulations,
- supervise the implementation of internal control tasks in the areas of the Bank's business under their supervision, in order to ensure effective and secure development of the Bank,
- monitor the risks in the business areas under their supervision,
- issue circular letters, which are implementing regulations for the President's resolutions and orders,
- issue instructions on how to deal with a matter to the Head Office's organisational units under their supervision,
- in accordance with the Order of the President of the Management Board concerning the rules of selection and hiring of employees for the Bank – decide on staff employment and remuneration, change of terms of employment, and termination of employment contracts in the areas under their supervision in accordance with the Bank's internal regulations;
- ensure that the Bank fulfils its obligations in connection with the performance of the activities referred to in Art. 70.2 of the Act on Trading in Financial Instruments, make assessments and periodic reviews of the strategy, arrangements and procedures introduced in order to fulfil those obligations, and indicate the Management Board member in charge of that area,
- monitor the appropriateness of the Bank's strategic objectives adopted in connection with the performance of the activities referred to in Art. 70.2 of the Act on Trading in Financial Instruments,
- monitor the appropriateness and effectiveness of the solutions, regulations and policies implemented at the Bank in connection with the performance of the activities referred to in Art. 70.2 of the Act on Trading in Financial Instruments,

- are responsible for the day-to-day operation of the procedures for reporting breaches of the law, regulations applicable at the Bank and market standards, and indicate the Management Board member responsible for this area, to whom such breaches are to be reported.

In the performance of these supervisory tasks, individual members of the Management Board may submit proposals and requests to the Management Board regarding matters to be decided on by the Management Board as a collective body, concerning both the overall business of the Bank and the individual areas of its operations.

In accordance with the Bank's Articles of Association, representations concerning the Bank's property rights and obligations may be made and documents on behalf of the Bank may be signed by the President of the Management Board acting individually or by two persons from among the other members of the Management Board, commercial proxies or attorneys-in-fact acting jointly according to, and within, their authorisation. The Bank's attorneys-in-fact are appointed and removed by the President of the Management Board acting individually or by two persons from among the other members of the Management Board, commercial proxies or attorneys-in-fact acting jointly according to, and within, their authorisation.

Passing of resolutions to increase or reduce the share capital and to issue convertible bonds or bonds with pre-emptive right lies within the powers of the General Meeting.

4. Conflict of interests at BOŚ S.A.

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

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

5. Remuneration policy at BOŚ S.A.

5.1. Remuneration policy for management personnel at BOŚ S.A.

In order to meet the requirements set out in the Regulation of the Minister of Development and Finance of March 6th 2017 on risk management and internal control systems, remuneration policy and detailed method of calculating internal capital in banks, and in accordance with Directive 2013/36/EU of the European Parliament and of the Council of June 26th 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the Bank implemented a remuneration policy for the managing personnel, approved by the Supervisory Board.

The Remuneration and Nomination Committee, appointed by the Supervisory Board, gives its opinions on and monitors the remuneration policy and supports the Bank's bodies in developing and implementing this policy by:

- giving opinions on the list of persons with significant influence on the Bank's risk profile and on the annual update of the list,

- designing remuneration packages for members of the Management Board, including the amount and components of variable remuneration, factors determining variable remuneration and performance evaluation criteria, and recommending them to the Supervisory Board,
- recommending to the Supervisory Board the award, limitation, withholding, refusal of payment or disbursement of variable remuneration of members of the Management Board,
- giving opinions on variable remuneration for the managing personnel holding risk-management and compliance positions at the Bank,
- giving opinions on and monitoring of variable remuneration for the managing personnel holding first- and second-line of defence risk-management positions other than those specified in item 4 above,
- giving opinions on the remuneration policy of the Group and issuing opinions on assessment of the materiality of the subsidiaries' impact on the risk profile of the Bank.

The key assumptions of the remuneration policy include:

- payment of at least 50% of the determined variable remuneration in shares of the Bank whose value is calculated as the weighted average price of the Bank shares in session trading on the WSE in the period from December 1st of the year preceding the year in which the variable remuneration is awarded to January 31st of the year in which the variable remuneration is awarded.

The terms 'shares' is understood to include:

- shares of Bank Ochrony Środowiska S.A. listed on the Warsaw Stock Exchange,
- virtual, or phantom, shares with a value per phantom share equal to the price of the Bank shares listed on the Warsaw Stock Exchange;
- payment of 40% of the variable remuneration in three deferred equal annual instalments, with at least 50% of each tranche paid in Bank shares and the balance paid in cash. The deferred part may be suspended, reduced or not paid or realised at all if the Bank's results differ significantly from the approved budget for a given year, or when the circumstance specified in Article 142.1 of the Banking Law occur;
- performance evaluation covering a three-year period so that the amount of performance-based remuneration takes into account the business cycle of the Bank and the risks involved in its business activity. The term 'performance' is understood to mean actual delivery of productivity, financial, sales and individual targets set forth in the Bank's strategy or budget for a given year.

In addition, in the reporting period the Remuneration Policy was elaborated to include provisions taking into account a prudent approach to the payment of variable components of remuneration in justified cases, such as the occurrence of a crisis situation or events having an adverse impact on the economy, which may affect the financial market, the capital base of the Bank and/or its financial results. If such events occur, the variable remuneration – regardless of its amount – will be settled in accordance with the following principles:

- 40% of the accrued bonus will be non-deferred variable remuneration, payable in the year when the performance evaluation was made,
- 60% of the accrued bonus will be deferred variable remuneration, which will be divided into four equal tranches. Each tranche will be awarded and paid annually over for a period of four consecutive years following the year in which the non-deferred remuneration was awarded to the eligible person.

At least 50% of both the variable remuneration and each subsequent tranche of the deferred remuneration will be paid in Bank shares.

The above results from the position of the PFSA regarding conservative approach to the payment of variable remuneration, published in April 2020.

The maximum amount of variable remuneration for each managing person may not exceed 100% of the person's annual fixed remuneration. The General Meeting of Bank Ochrony Środowiska S.A. may give its consent to increasing the maximum level of variable remuneration up to 200% of the fixed remuneration, in accordance with the procedure provided for in §25(2)(4)(b) and (c) of the Regulation of the Minister of Development and Finance of March 6th 2017 on risk management and internal control systems, remuneration policy and detailed method of calculating internal capital in banks. The increase in the maximum amount of

variable remuneration referred to in the preceding sentence does not apply to members of the Management Board.

During the reporting period:

- after the end of the retention period, the phantom shares awarded as part of the variable remuneration for 2018, with a total gross amount of PLN 309.6 thousand (46,790 phantom shares times the price equal to the arithmetic average of the closing prices at the first five sessions after the end of the retention period, i.e., PLN 6,616), were converted into cash and paid out;
- the first (of three) tranche of deferred variable remuneration for 2018 was settled; the total expected cost will amount to PLN 88.1 thousand gross, including payments in phantom shares constituting a short-term benefit to be paid after the lapse of the retention period, i.e., after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 6,229 shares, and the amount of PLN 45.4 thousand gross was paid in cash as a short-term benefit;
- variable remuneration for 2019 for management personnel holding positions with a material impact on the Bank's risk profile (including members of the Management Board) was determined. The expected total cost of variable remunerations for persons holding managerial positions at BOŚ S.A. for the results generated in 2019 is PLN 1,408 thousand, gross. Out of the total amount:
 - the gross amount of PLN 899.4 thousand was paid in cash as a short-term benefit,
 - phantom shares were awarded as a short-term benefit, to be paid after the lapse of the retention period, i.e., after a period of six months from the date of the award of the variable component of remuneration, with the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 31,816 shares with a total gross amount of PLN 217.9 thousand,
 - payment of the gross amount of PLN 290.6 thousand was deferred as a long-term benefit (including: PLN 145.3 thousand gross in cash and PLN 145.3 thousand gross in Bank shares); once awarded, the deferred tranches will be disbursed in three subsequent years, i.e., 2021, 2022 and 2023, in equal parts, however the disbursement of each tranche may be withheld or limited if the Bank's results materially deviate from the approved budget for a given year or if the circumstance referred to in Art. 142.1 of the Banking Law occur.

The variable remuneration for 2020 has not yet been determined and awarded.

5.2. Management stock option and employee share program

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

In 2019 and 2020, there were no employee share programs at the Bank.

5.3. Information on remuneration and liabilities to key managerial staff at BOŚ S.A.

Information on remuneration for key managerial staff of BOŚ S.A. and all liabilities of the Bank to the present and former managers and supervisors is provided in note 48 of the Full-Year Consolidated Financial Statements of the BOŚ Group for the year ended December 31st 2020.

5.4. Agreements on compensation for managers

The agreements concluded with managers provided for the following compensation rules:

- in the case of termination or notice of termination of the contract by the Bank due to reasons other than violation of basic obligations based on the contract, there is a possibility of awarding no more than 3 times the fixed remuneration under the condition of performance of the entrusted function for the period of at least 12 months prior to termination of the contract; the severance payment amount is decided upon by the Supervisory Board on the basis of the scope of services rendered, their effectiveness and quality in the last 3 years of performance of the function and assessment of effects of the managerial services performed, financial results of the Bank and the line of business supervised. The above rules applied to three Members of the Management Board in the period from January 1st to June 17th 2020, two Members of the Management Board in the period from June 18th to November 8th 2020, and to three Members of the Management Board in the period from November 9th to December 31st 2020.
- in exchange for withdrawal from dealing directly or indirectly with interests that are competitive to the Bank after termination of the function, if the function was performed for at least 3 months, a compensation has been provided, paid every month after termination of the function in the amount of 50% of the fixed remuneration received directly prior to termination of the function - for the period of 6 months. The above rules applied to three Members of the Management Board in the period from 1 January 1st to June 17th 2020, two Members of the Management Board in the period from June 18th to November 8th 2020, and to three Members of the Management Board in the period from November 9th to December 31st 2020.

5.5. Shares of the Bank held by Members of the Management Board and Supervisory Board of the Bank

According to information submitted to the Bank, as at December 31st 2020 none of the Members of the Management Board and none of the Members of the Supervisory Board held:

- any Bank shares or rights to Bank shares;
- any shares in the Bank's related entities.

At the same time, Arkadiusz Garbarczyk, Vice President and First Deputy President of the Management Board, held:

- 19,190 phantom shares in BOŚ S.A. in connection with Members of the Management Board having been granted variable remuneration for 2019,
- 2,917 phantom shares in BOŚ S.A. in connection with Members of the Management Board having been granted the first (out of the three) tranche of deferred variable remuneration for 2018.

Phantom shares are a derivative instrument within the meaning of the regulations on trading in financial instruments for which the underlying instrument is the value of the Bank shares on the WSE. It is used by the Bank for payment of variable remuneration in accordance with requirements laid down in the Regulation of the Minister of Development and Finance of March 6th 2017 on risk management and internal control systems, remuneration policy and detailed method of calculating internal capital in banks.

VI. VI. NON-FINANCIAL STATEMENT

This document is a mandatory non-financial statement. The Bank prepared the non-financial statement for the fourth time, based on the GRI standards and its own indicators. The data gathered reflect the circumstances as at December 31st 2020.

Due to the COVID-19 pandemic, most of the employees' CSR activities in 2020 were performed online. Among other initiatives, the "BOŚmy Zieloni" ("We're Green") project, launched in the previous year, was continued. Its main objective is to strengthen the activities representing the environmental focus of the Bank by building the knowledge and attitudes of the Bank's workforce. The activities included, among others, promotion of the European Week for Waste Reduction, communication on waste segregation under pandemic conditions, and postcards from the GREEN Calendar on the following occasions: World Animal Day, International Day for Disaster Reduction, Clean Air Day, and World Soil Day. Since September 2020, BOŚ has been regularly issuing the "GreenLetter", an internal brochure promoting market events relating to environmental matters and presenting reports and analytical studies as well as internal good practices for financing environmental projects.

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

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

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

- creates a friendly workplace for its present and future employees,
- supports and promotes projects that are friendly to the social and natural environment,
- operates in a transparent manner, being a trustworthy partner for its shareholders, clients and employees,
- wants to be a responsible business leader in the banking sector,
- builds client awareness on benefits of social commitment, care for the natural environment and a healthy lifestyle,
- develops social sensitivity of its business partners by implementing environmental investments.
- The BOŚ Foundation, established in 2009, is the oldest foundation in Poland established by a bank, contributing to environmental protection, promotion of ecology and sustainable development. The three pillars of its activity are: ecology, health and voluntary work.
- The Bank helps its clients in implementation of environment-friendly projects, providing a broad portfolio of products and sharing the expert knowledge and experience of its specialists (ecologists, environmental protection engineers).
- The Bank supports the development of knowledge and skills related to environmental protection among its employees, stimulating pro-environmental and prosocial attitudes and behaviour.
- The Bank cooperates with financial institutions that pursue similar objectives (e.g. the NFEPWM, VFEPWM).
- The Bank is sensitive to others even in the finest details of its activity - for instance, it was the first bank in Poland to allow clients visit its branches with pets.

ETHICS

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

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

- The Code of Ethics of Bank Ochrony Środowiska S.A.,
- The Code of Banking Ethics (Rules of Good Banking Practice),
- The rules of acceptance and granting of benefits or gifts at Bank Ochrony Środowiska S.A.,
- The policy to counteract and manage conflicts of interests at Bank Ochrony Środowiska S.A.,
- The procedure for anonymous reporting of violations of law and ethical procedures and standards followed by Bank Ochrony Środowiska S.A.,
- The rules of acceptance and granting of incentives at Bank Ochrony Środowiska S.A.,
- The Work Regulations.

Dom Maklerski BOŚ belonging to the BOŚ Group applies the ethical principles and standards contained in the following documents:

- The Code of Good Practice of Brokerage Houses,
- Good communication practices and marketing activity standards on the OTC market of derivatives,
- Corporate governance rules of the PFSA,
- The violation reporting policy at DM BOŚ,
- Regulations for management of conflicts of interest at DM BOŚ,
- Client service standards of DM BOŚ,
- Strategies and procedures aimed at detection of the risk of non-compliance of the company with its obligations based on directive 2014/65/EU.

Ethical values and standards are the basis of the Bank's everyday activity. All of the listed documents and regulations are available on the Intranet in Polish. Knowledge of the Code of Ethics is one of the requirements that must be met by newly hired employees in the adaptation process (they submit a proper statement). At Dom Maklerski BOŚ, the preliminary employee training includes the internal rules and regulations, including those pertaining to management of conflicts of interest.

At the Bank, interpretations of ethical concerns are provided by the Compliance Department, which – in cooperation with other departments – proposes and implements amendments to the Code of Ethics. The Department also conducts periodic internal actions to promote the desirable behavior and strengthen the sense of shared responsibility among employees for risks related to non-compliance. In matters related to ethics and compliance, every employee of the Bank may contact the Director and employees of the Compliance Department (information is available on the Intranet).

An analogical function at Dom Maklerski BOŚ is performed by the Department for Supervision of Legal Compliance. Every employee of DM BOŚ can use the dedicated mailbox to request advice from the Department.

Cases of violation at the Bank are subject to the provisions of the “Procedure for anonymous reporting of violations (...)”. Every such notification is transferred to the President of the Management Board (and if it concerns a member of the Management Board or a member of the Supervisory Board - to the Supervisory Board). The Bank warrants full anonymity of every person making a notification.

DM BOŚ also has in place a violation reporting policy, which ensures confidentiality of all violation reports. All newly hired employees are familiarised with anti-corruption policies and procedures.

2.1. The compliance policy

BOŚ S.A. ensures complex management of compliance of the Bank's operations with regulations, market standards and pursued values, as well as the internal control system. The formal framework and procedures developed are used not only to meet the regulatory obligations (including compliance with recommendations of the PFSA), but most of all exert positive impact on the organizations. Thanks to these, the Bank is confident that its operations are consistent with the highest standards and at the same time minimizes the key risks (financial, market, reputation and legal risks).

Compliance within the framework of the Bank's internal control system is supervised by the Supervisory Board in cooperation with the Internal Audit Committee. The Board approves the Compliance policy and assesses effectiveness of non-compliance risk management (on an annual basis), as well as adequacy and effectiveness of the internal control system (at least once a year). A complex internal supervision system is also present in DM BOŚ. Activity of the Bank and Dom Maklerski BOŚ is subject to supervision by the Polish Financial Supervision Authority.

EMPLOYEES

The human resources policy, its processes and regulatory framework as well as the organizational culture contribute to strengthening of values and standards, which are perceived as important for the Bank - including counteraction of any forms of discrimination and mobbing, providing equal opportunity for everyone and promoting diversity.

People are the most important asset of BOŚ Bank. Care to attract and hold the best employees is visible at all stages of HR management - from talent recruitment through development of those, who have already been employed.

The Bank monitors on a constant basis the employment indicators, including staff turnover. The managerial information system provides data on the needs, opportunities and challenges associated to human capital management. The Bank also puts emphasis on enhancing work effectiveness, as well as employee loyalty and satisfaction.

DM BOŚ also pursues a complex policy of effective employment. Its key objectives are consistent with those of BOŚ Bank. They include:

- providing a specialized staff having the defined level of qualifications, position-related competences and professional experience,
- maintaining employment at an optimum level and monitoring staffing needs on an ongoing basis in individual organisational units,
- effective filling of vacancies as they emerge,
- development and raising of qualifications of employees.

Employment in the BOŚ Group according to contract type

	WOMEN	MEN	TOTAL
Employees hired for a trial period	11	10	21
Employees hired for a specific period of time	120	91	211
Employees hired for an indefinite period of time	658	420	1,078
Employees hired on the basis of contracts for replacement	36	14	50
Employees hired on the basis of managerial contracts	1	4	5
Self employed persons, working in the Group on the basis of the same rules as employees	7	10	17
Employees hired on the basis of internship contracts	-	-	-
TOTAL	833	549	1,382
TOTAL EMPLOYEES HIRED ON THE BASIS OF CONTRACTS OF EMPLOYMENT	825	535	1,360

Employment at the BOŚ Group according to type of long-term contract and gender

Employees hired for an indefinite period of time:	WOMEN	MEN	TOTAL
Full-time employees	640	414	1054
Part-time employees	18	6	24
TOTAL	658	420	1,078

Total number of BOŚ Group employees hired on the basis of employment contracts according to gender and region

VOIVODSHIP	WOMEN	MEN	TOTAL
Dolnośląskie	19	11	30
Kujawsko - pomorskie	28	6	34
Lubelskie	27	8	35
Lubuskie	7	1	8
Łódzkie	16	8	24
Małopolskie	31	16	47
Mazowieckie	513	400	913
Opolskie	5	1	6
Podkarpackie	21	7	28
Podlaskie	18	8	26
Pomorskie	27	7	34
Śląskie	42	32	74
Świętokrzyskie	5	0	5
Warmińsko - mazurskie	20	7	27
Wielkopolskie	25	18	43
Zachodniopomorskie	21	5	26
TOTAL	825	535	1,360

Total number and percentage of newly hired employees at the BOŚ Group according to gender and age

	WOMEN			MEN			OGÓŁEM
	≤ 29	30-50	51 ≤	≤ 29	30-50	51 ≤	
AGE:							
Number of newly hired employees	38	91	12	34	73	16	264
Percentage of newly hired employees	14%	34%	5%	13%	28%	6%	100%

Total number and percentage of employment contract terminations at the BOŚ Group according to age, gender and or regional

	WOMEN			MEN			OGÓŁEM
	≤ 29	30-50	51 ≤	≤ 29	30-50	51 ≤	
AGE:							
Number of contract terminations of DM and Bank employees	19	80	25	10	56	18	208
Percentage of contract terminations of DM and Bank employees	1%	6%	2%	1%	4%	1%	15%

Diversity in practice

BOŚ S.A. does not have in place any diversity policy developed and formally approved by its governing bodies. However, for many years, the Bank has, in practice, conducted its human resources policy taking into account the key principles of diversity assuming that values arising from differences are a source of additional advantages for the organisation.

BOŚ S.A. affirms the principle of inadmissibility of any discrimination in employment, whether direct or indirect, in particular on grounds of gender, age, disability, race, religion, nationality, political beliefs, trade union membership, ethnic origin, religious denomination, sexual orientation, or discrimination based on the form of employment. It perceives workforce diversity as a value that creates capital and constitutes a potential source of building a competitive advantage for the Bank.

The Bank seeks to create a friendly working environment for its employees and to prevent any discrimination or mobbing.

Examples of diversity:

- women account for a clear majority in the BOŚ Group's workforce structure (66%);
- 45% of the top management are women;
- the share of women occupying other managerial positions is 64%;
- representatives of top management are graduates of various faculties in Poland and abroad (including economy, technical fields, IT, law, linguistics and others);
- out of the top-level management, 7.5% (3 persons) have worked for the Bank for more than 15 years; the average employment period for women is 5.2 years, and for men - 2.0;
- the top-level management includes persons with varying experience from Polish and European financial and non-financial institutions,
- the Bank hires foreigners, retirees and persons with retirement rights, as well as disabled persons
- The percentage of employees with disabilities is 1.2%.

Composition of staff at the BOŚ Group according to employment category, gender and age

	MANAGEMENT BOARD AND DIRECTORS			TOP AND LOWER LEVEL MANAGEMENT EMPLOYEES			OTHER EMPLOYEES		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
AGE ≤ 29	0	1	1	1	2	3	63	63	126
AGE 30-50	26	42	68	92	68	160	436	247	683
AGE ≥ 51	6	22	28	32	12	44	169	78	247
TOTAL	32	65	97	125	82	207	668	388	1,056

Percentage shares of staff at the BOŚ Group according to employment category, gender and age

	MANAGEMENT BOARD AND DIRECTORS			TOP AND LOWER LEVEL MANAGEMENT EMPLOYEES			OTHER EMPLOYEES		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
AGE ≤ 29	0%	0%	0%	0%	0%	0%	5%	5%	9%
AGE 30-50	2%	3%	5%	7%	5%	12%	32%	18%	50%
AGE ≥ 51	0%	2%	2%	2%	1%	3%	12%	6%	18%
OGÓLEM	2%	5%	7%	9%	6%	15%	49%	29%	78%

Employment conditions

BOŚ Bank is an institution of equal opportunity in terms of employment, remuneration and development. All employees of the Bank are responsible for creating a friendly atmosphere at work, free from any form of discrimination, mobbing or harassment. (Excerpt from the Code of Ethics). All employees of the Bank and DM BOŚ have equal rights in terms of commencement and termination of their employment relationship, terms and conditions of employment, promotion and access to development programs. DM BOŚ constantly monitors coherence of the remuneration system, taking into account the specific nature of the sector of financial institutions:

- The Code of Ethics, the Work Regulations and the Anti-Mobbing Policy contain provisions e.g. on counteracting discrimination due to any aspect (gender, age, disability, race, religion, nationality, political beliefs, union affiliation, ethnic origin, faith and sexual orientation, as well as form and period of employment).
- In its recruitment processes, the Bank applies standards consistent with the EU Directive on equal treatment. Recruitment is based on objective criteria and the established patterns and rules.
- Position valuation at the Bank is conducted on the basis of objective, substantial and anti-discriminatory criteria. Remuneration depends on the competences, scope of responsibility and professional experience, as well as remuneration practices applicable to the banking sector.
- All of the Bank's employees have access to trainings adapted to their needs and experience. The Bank puts particular emphasis on investing in development of those employees, who are distinguished by the effects of their work.

- Since 2017, the Bank has implemented the program “Bank open to disabled persons”, allowing persons with confirmed disabilities to find employment (in form of telework).
- The annual employee assessment is based on the competence model and assessment of work effects - as the key objective criteria for valuation of knowledge and commitment of individual employees.
- Every employee of the Bank is appreciated and entitled to receive variable remuneration for their work.

Average basic remuneration - female to male ratio*

Top and management positions	75%
Non-managerial positions	81%

Average remuneration paid - female to male ratio*

Top and management positions	79%
Non-managerial positions	84%

*Data for BOŚ S.A.

Remuneration of lowest level BOŚ employees as percentage of minimum local remuneration according to gender and region

VOIVODSHIP	WOMEN	MEN
DOLNOŚLĄSKIE	148%	162%
KUJAWSKO - POMORSKIE	143%	177%
LUBELSKIE	130%	-
LUBUSKIE	154%	173%
ŁÓDZKIE	142%	-
MAŁOPOLSKIE	133%	124%
MAZOWIECKIE	135%	139%
OPOLSKIE	153%	154%
PODKARPACKIE	132%	-
PODLASKIE	140%	-
POMORSKIE	152%	-
ŚLĄSKIE	142%	-
ŚWIĘTOKRZYSKIE	148%	-
WARMIŃSKO - MAZURSKIE	138%	146%
WIELKOPOLSKIE	144%	154%
ZACHODNIOPOMORSKIE	149%	192%
TOTAL FOR POLAND:	143%	142%

Additional benefits

The employees of the BOŚ Group have access to various programs and benefits, both in standard form (such as additional financing from the Corporate Employee Fund) and tailor-made. Additional benefits are applicable to all employees, including part-time and full-time employees, as well as those hired under fixed term contracts.

Employees of the Bank and BOŚ Brokerage House are provided with private medical care enabling them to use a network of medical facilities across the country and access a wide group of medical professionals.

Good HR practices

at the Bank:

- the program of succession to key positions at the Bank,
- hiring of internal trainers,
- support in raising professional competences, additional financing for trainings, postgraduate studies, MBA.
- voluntary employee insurance on preferential terms,
- free health care for employees in the Enel-Med chain; preferential packages for family members,
- additional financing of Employee Capital Plans for employees (1.5% of remuneration);
- one day off per work for volunteer work or environmental activity,
- remote work option,
- access to MyBenefit platform (benefits partially financed from the Corporate Employee Fund, including the MultiSport card and a number of services for children, tourism and entertainment services at attractive prices),
- Christmas benefits paid in the form of cash,
- free access to a virtual platform enabling the employees to borrow more than 60 thousand e-books and audiobooks for four devices, covering with a variety of topics,
- the “BOŚwięta tuż, tuż” (Christmas is Coming) song dedication event organised by the Bank’s Management Board and employees,
- voluntary free vaccination against flu,
- 35% discounts for those travelling to work by railway using Koleje Mazowieckie.

at Dom Maklerski BOŚ:

- training competencies held by selected Brokerage House specialists, who transfer knowledge of their professional areas to the other Brokerage House employees by way of internal training they prepare and conduct,
- support in improving and developing professional competence through co-financing of training, courses, post-graduate studies, participation in industry conferences, an in-house book collection
- voluntary life and health insurance for employees and their families on preferential terms,
- free health care for employees in the LUX MED chain and preferential packages for family members,
- home office policy,
- Christmas gifts for employees’ children,
- workshops and meetings on healthy nutrition and lifestyle.

In addition, in order to minimise the adverse effects of the pandemic and maximise support for the management staff, the Bank has enabled it to participate in the “Team Management in a Remote Work System” training.

Development

The BOŚ Group constantly invests in development of employee competences, being aware of the fact that these, combined with experience and commitment, are decisive for the Group’s market position.

In response to development needs of its employees, the Bank has introduced a new, comprehensive training and development policy and a set of training courses taking into account the characteristics of top and medium level management staff. The new rules apply to all employees of the Bank and fit into the policy of equal access to competence development. Professional development of employees is determined by HR needs of the Bank, as well as its ecological mission, objectives and organizational values.

The Bank puts emphasis on constant development – employees supplement their knowledge built by online or on-site training and workshops with experience gained in everyday work. Trainings prepare employees to

effectively perform their duties, but also to assume new roles in the organization in the internal recruitment process. All of the training and development activities, including e-learning trainings, are subject to assessment in term of their effectiveness, employee satisfaction and the level of knowledge earned. Initially, new employees of Dom Maklerski BOŚ receive induction training comprising training conducted by specialists with competences in particular areas and internal e-learning courses. Trainings prepare employees to effectively perform their duties, but also to assume new roles in the organization in the internal recruitment process. All of the training and development activities, including e-learning trainings, are subject to assessment in term of their effectiveness, employee satisfaction and the level of knowledge earned.

Average number of training hours per BOŚ employee according to employment category

EMPLOYMENT CATEGORY	WOMEN	MEN	OGÓŁEM
Management Board and directors	75	5.5	80.5
Higher and lower level managerial positions	15	18.5	33.5
Other administration employees	20.5	23	43.5
TOTAL NUMBER OF TRAINING HOURS	110.5	47	157.5

Safety at work

In connection with the global COVID-19 pandemic, Bank Ochrony Środowiska S.A. took a number of steps to minimise the impact of the external situation on the Bank's operations and on its perception by clients and employees, while ensuring the highest possible safety standards. In particular:

- the Bank's Head Office and outlets were disinfected using ozone generators and dry-fogging;
- the Bank's Head Office and outlets were provided with antibacterial soap, hand sanitizers, and disinfectants for working surfaces;
- blends and disposable gloves were provided for direct client service desks and stands, and all employees received reusable masks;
- it was ensured that the Bank premises could be disinfected using ozone generators and dry-fogging after any suspicion of contact with a person infected with COVID-19;
- a hotline for employees was launched to keep them informed about the rules of implementation at the Bank of the Act on Special Solutions Related to Prevention, Counteracting and Combating of COVID-19, Other Infectious Diseases and Emergencies Caused by them and Certain Other Acts, dated March 2nd 2020.
- a number of internal communications raising employees' knowledge and awareness of epidemiological security issues were published;
- contactless thermometers for measuring body temperature were purchased;
- devices for automatic measurement of body temperature of persons entering the Bank's premises were installed,
- disinfectant mats for footwear were purchased.

The BOŚ Group provides its employees with safe and ergonomic work stations. All employees receive obligatory induction and periodic 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 threats and conditions of a given workplace.

Designated persons participate on a regular basis (at least every two years) in fire protection and employee evacuation trainings. These are conducted by persons having at least a license of a fire protection inspector. There are regular classes as well on first aid principles - so that the proper qualifications in this regard are possessed by at least 10% of the crew of every organizational unit (not less than 2 persons). Instructions are given by lifeguards with valid licenses. The employer covers all costs of OHS trainings (including the potential

accommodation and transport costs). The education activities bring measurable results. In 2020, there were two minor accidents at work, and the injury rate (IR) was 1.8.

No accidents at work occurred in 2020.

Sporting activity of employees

Apart from trainings, the Bank promotes a healthy and active lifestyle of its employees. The sports sections at BOŚ bring together employees, who voluntarily share their passion for active sports. A great number of BOŚ employees are members of thirteen sports sections. Active volleyball and football fans have participated in corporate league matches for several seasons. Apart from team sports, there are groups of runners, skiers and sailors among the Bank employees. The running section of BOŚ has among its members many marathon runners and it brings together representatives of all of the Bank's branches, who love to run and participate in running events throughout Poland under the BOŚ banner.

THE ENVIRONMENT

As a leader in the financing of environmentally friendly solutions in Poland, the Bank strives to reinforce among its retail and corporate clients broadly understood environmental awareness, understood as environmental protection, organic food, healthy lifestyle, care for the environment, etc. As an ECO Bank - it shows by its own example how financial institutions can fit into the concept of sustainable development.

The Bank's environmental policy encompasses a number of activities and projects aimed at minimizing the impact of activity of the Bank on the environment.

Particularly important are:

- constant reduction of energy consumption (energy-saving equipment and lighting systems, including ad lighting; dusk sensors; intelligent control systems for air conditioning, heating and ventilation systems, low emission corporate vehicle fleet; eco-driving trainings),
- constant reduction of water and sewage consumption (i.a. faucet aerators, dual flush toilets),
- effective waste segregation (internal recycling of 50% of waste; contracts with professional companies to handle the remaining waste),
- employee education (e.g. on the need to turn out the lights, limit the quantity of printouts, water consumed or quantity of waste generated, including plastic).

The Bank and Dom Maklerski BOŚ have signed electricity supply contracts that guarantee the supply of 100% of electricity from green energy sources.

Second life of equipment (good practice)

The Bank recycles a significant portion of retired IT assets (PCs and laptops) and mobile phones. The equipment can be purchased by employees or external companies. The Bank provides public utility institutions free of charge with computers and furnishing elements (e.g. furniture).

Environmental activity of subsidiaries

Dom Maklerski BOŚ is actively engaged in the environmental activities undertaken by the BOŚ Group. In 2020, it carried out the issue of green bonds by New Energy Investment Sp. z o.o. to finance renewable energy sources.

At the end of December, an agreement for the issue of green bonds was signed with Columbus Energy S.A. Dom Maklerski BOŚ is one of the first entities in Poland to develop this innovative form of financing environmentally-friendly investment projects.

One of the services offered by the Brokerage House is intermediation in trading in property rights under the so-called "coloured certificates". This service is used mainly by producers of electricity from renewable energy sources (wind farms, small power plants, PV systems, etc.). Dom Maklerski BOŚ was the first entity authorised to operate on the Agricultural and Food Commodities Market operated by the Polish Power Exchange.

BOŚ Leasing – Eko Profit S.A. provides financing services in the form of operating and finance leases and lease loans. As part of its business, it finances investment projects related to various forms of environmental protection (energy consumption reduction solutions and RES projects). In addition, the Company helps the Group's clients to obtain financing for green projects using funds provided by banks and funds from the 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 commune of Pełczyce.

Eco-training in ECO Bank

As part of the environmental competence development programme, all employees of the Bank receive training to raise and maintain their knowledge of environmental protection matters, environmentally-friendly products offered by the Bank and ways of financing environmental projects. The first stage is an eco-training block as part of employee induction training. Another tool is an environmental e-learning course which has been included in the list of mandatory training for all employees of the Bank. At the newly established ECO Library, employees have several dozen books and board games at their disposal. Additional information can also be found in reports published regularly on the Bank's intranet.

The Ecological Report

For 23 years, the Bank's team of environmentalists has been preparing an annual publication which summarises key issues related to EU and national regulations, strategic documents affecting the development of the market for environmental projects and information on available investment support instruments. One of the key elements of the Report is the presentation of a specialised financial offering of BOŚ and a summary of the environmental effects of the projects financed with funds borrowed from BOŚ. The Report also included case studies of investment projects carried out by the Bank's Clients.

Ecology and economy

In carrying out environmentally friendly projects, the Bank's clients are assisted by environmentalists with specialist engineering knowledge, employed by BOŚ. Frequently, they inspire additional measures to mitigate companies' environmental impact. One of their duties is to ensure that funds allocated to environmentally friendly projects are spent in accordance with the requirements imposed by environmental laws. Assistance in the development of an optimum model for the financing of an investment project is particularly valuable where preferential financing conditions and grants from national and EU funds are involved. The Bank is willing to share its knowledge, assuming that only popularization of ecological awareness may contribute to sustainable development of Poland. This is why the Bank's Chief Environmentalists participate in trade fairs, seminars and conferences.

Carbon footprint

In 2020, for the second time in the Bank's history, carbon footprint calculations were made. The first estimate of greenhouse gas emissions related to the Bank's operations was made for 2007.

The calculations of the BOŚ coal footprint in 2020 refer to the Bank's operational activity and do not include an assessment of how the Bank's products and the investment project it finances affect climate change. The Bank relied on the support of experts from the Institute for Sustainable Development in its calculations.

The calculations were made in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. Emissions were estimated for the following scopes:

Scope 1

- fuel consumption by business cars;

Scope 2

- electricity consumption;
- heat consumption;
- consumption of natural gas (BOŚ did not use this fuel);

Scope 3

- business travel – airplanes;
- business travel – trains;
- business travel – private car or coach bus rental;
- employees commuting to and from work;
- consumption of electricity by employees during remote work at home;
- water consumption;
- discharged effluents;
- municipal waste generated;
- paper consumption;
- courier services.

The calculations were made for 2020 on the basis of data (as complete as possible) in each of the scopes.

Greenhouse gas emissions at BOŚ in 2020:

Scope	Emissions [tCO ₂ eq]
Scope 1	14.01
Scope 2	2,994.83
Scope 3	861.35
Total	3,870.19

The estimated greenhouse gas emissions related to BOŚ operations in 2020 were 3.87 thousand Mg CO₂eq.

In 2020, the carbon footprint per full-time employee was 3.55 Mg CO₂eq.

Awards for environmental activities

The Bank's environmental efforts were appreciated by the Judging Panel of the 13th Nationwide Corporate Social Responsibility Leaders Programme, which announced the Bank as the winner of the Eko Firma 2020 Programme. The Judging Panel recognised and awarded by the Bank for activities related to the implementation of CSR principles. It appreciated the focus on environmental values, pursuit of environmental information campaigns, paying attention to sustainable development, and support for community outreach initiatives.

PRODUCTS

The mission “Polish ECO Bank - for people, businesses and the environment” is also visible in the Bank’s product range. For retail clients, small and medium-sized companies and corporate clients, the BOŚ brand is a warranty of a modern range of products - including “green” ones - characterized by the highest standard of management, commercial ethics and care for the natural environment and sustainable development of Poland.

The Bank is distinguished by a broad range of products obtaining additional financing from such institutions as BGK, NFEPWM, VFEPWM. Experienced employees of the Bank, including environmental experts, may arrange the financing of various projects that enhance the competitiveness of the Polish economy.

All products are supervised for their compliance with the law, recommendations of supervisory bodies, trade practice and internal requirements of the Bank. The most important components of the legal framework of products include:

- the Banking Law Act, the Act on consumer loans, the Act on mortgage loans,
- Recommendations of the PFSA: S, T, U,
- The rules of development and management of banking products at BOŚ S.A.,
- documents that specify the rules of calculation of interest rates, commissions and charges for individual groups of clients.

Every new product of the Bank must be assessed by the Financial and Operating Risk Department, the Credit Policy and Asset Valuation Department, the Compliance Office and the Legal Department. The opinions issued include assessment and mode of management of significant risks, fulfilling of information obligations, identification of potential conflicts of interests, compliance with the law.

The Bank monitors client satisfaction on a continuous basis. Satisfaction surveys cover the Bank's services related to the sale of products as well as after-sales services at the Bank's outlets. We started to measure satisfaction of the clients who use the call centre to contact the Bank. We officially launched a policy of using plain Polish language. Since the beginning of 2020, the plain Polish language rules have been followed on the new website of the Bank and are applied in advertising communications for clients and in selected forms of letters to retail clients. BOŚ S.A. has joined the declaration drawn up by the Polish Bank Association on a plain language standard to be applied by banks. We thus strive to change the banking language so that our clients understand all we write or tell them.

Several times a year, DM BOŚ distributes online questionnaires among its clients, asking them to assess the products and services offered by DM and the functionality of IT systems. The results are used to improve service quality and serve as an inspiration for the development of new functions in DM's transaction systems.

In the annual survey of the Association of Individual Investors, DM BOŚ has occupied one of the first three places for several years, and in the last two years it reached the top position. It receives particularly high scores in two categories: failure-free operation and speed of the online platform, and the educational offer.

In the client survey 'Client Friendly Company' conducted at the end of 2020, Dom Maklerski BOŚ received a very high rating, several percent above the rating obtained in a corresponding survey conducted in 2018.

Despite the unprecedented year which made everyone switch instantly to homeworking and remote client service, in the opinion of its clients the Brokerage House increased the quality of its services and client service and 96% of the clients declared they would recommend the House.

ECOCredit for photovoltaics (good practice)

Thanks to the preferential loan offered by the Bank, household can easily, without having to obtain a building permit:

- become prosumers, that is, both consumers and producers of “green energy”,
- reduce their electricity bills.

As a standard, a single photo-voltaic installation of 1kW produces 1000 kWh of electricity annually. On the average, this generates savings of around PLN 600 per year.

The Bank offers not only attractive lending terms (long lending period of up to 20 years, low commission and margin, high maximum amount of up to PLN 250 thousand, and a promotional credit facility of up to PLN 75 thousand and for up to 10 years), but also the professional support of environmental experts. On the Bank's website persons interested in the preferential credit facility can find a lot of practical information about how to obtain solar energy and a PV calculator to count the effects of installing solar panels.

ZIELONY DOM certificate

The ZIELONY DOM (GREEN HOME) certificate is the first Polish multi-criteria certification scheme for residential construction, developed by PLGBC (Polish Association for Green Building) in cooperation with established experts. Choosing the certification brings various benefits for the investor, developer, owner (client) and for the environment.

The green mortgage loan is a unique product offered by the banks participating in the scheme, which offer a reduced interest rate to clients purchasing a house with the PLGBC Green Home certificate. The reduced interest rate on the green mortgage loan results from a lower risk of default under the loan and a higher market value of certified houses compared with the standard ones. A residential property with the PLGBC Green Home certificate offers significantly lower electricity bills and costs of repairs, allowing households make additional savings that may be used to repay the mortgage loan. This additional monthly gain significantly reduces the risk of default on the mortgage loan by the green home owner. Coupled with a higher market value of the certified property, this enables the Bank to reduce the monthly interest rate on the green mortgage loan compared to the interest rates on loans offered for standard houses. What are the benefits of the certification?

- It contains requirements that confirm that the negative environmental impact of the investment has been minimised,
- Stresses investors' and developers' conscious effort towards sustainable construction, adapting the applied solutions in a way that serves the clients'/buyers' health and comfort and improves the quality of their life,
- When cooperating with BOŚ S.A., clients can obtain a mortgage loan on more attractive terms and a guarantee of lower operating costs.

Sustainable financing - a response to the climate crisis

As a leader in the financing of environmental projects in Poland, the Bank provides modern and effective financial solutions that enable the country and the businesses operating in Poland to effectively tackle the challenges posed by climate change by, among others, reducing the consumption of natural resources, improving energy efficiency, and increasing the use of renewable energy sources.

On the global level, these capital-intensive activities are often carried out by dedicated entities, known as green banks. In Poland, this role has been performed – for almost three decades – by BOŚ S.A.

Its environmentally-friendly offering goes beyond the standards of traditional banking. The Bank, being highly committed to promoting, among others, the concept of sustainable construction, has entered into an agreement with PLGBC concerning the Green Home and Green Mortgage projects. It is one of the first banks in Poland to finance renewable energy projects and constantly improves the products intended for particular environmental projects.

Selected green products:

- The fast and easy “Przejrzysta Pożyczka” (Transparent Loan) for replacement of heat sources and thermal upgrading of houses (supplementary and bridge financing for the Clean Air program)
- “Pełnym oddechem” loan, aimed at future and presents clients of PGNiG for achievement of objectives complementary to the governmental program for combating smog,
- Attractive loans offered in cooperation with Voivodship Funds for Environmental Protection and Water Management (VFEPWM) in selected voivodships - e.g. for replacement of heat sources, thermal upgrading and RES installations,
- Credit facility for thermal modernisation and repair projects with a premium for partial repayment of the facility from the Thermal Modernisation and Repair Fund;
- Attractive promotional terms of credit facilities for prosumer microgeneration PV systems
- Ecological mortgage loans,
- A special offer addressed to developers following such standards as BREEAM or LEED,
- The ‘EkoOszczędny’ credit facility, with an option of repayment with savings generated by the project financed with the facility, along with the cost-free Biznesmax guarantee,
- An investment credit facility to finance solar power plants with a capacity of up to 1 MW (inclusive) operating within the auction system,
- Payment cards featuring animals, drawing clients’ attention to endangered species of wild animals in Poland,
- The only financial product on the market certified with the Climate Leadership logo, aimed at countering and mitigating the effects of drought – “Our Water”,
- A product from the line of credit with EBI, with the Climate Action component embedded in the Juncker Plan.

The *Gazeta Finansowa* weekly recognised two products offered by BOŚ S.A. as worthy of notice. The “Supply Chain Financing” factoring product was recognised by the weekly as one of the best products for SMEs, and the “Multi-Purpose Credit Facility” product was distinguished in the report “Best Products for Businesses 2020”.

In 2020, the Bank was named the best commercial bank in the small and medium bank category, in a competition organised by the *Gazeta Bankowa* monthly. The editors awarded and indicated the industry leaders who are successful in an increasingly difficult market.

In addition, the Bank was:

- distinguished with the White CSR Leaf from the *Polityka* weekly. It is awarded to companies that commit to the implementation of the most important management categories recommended by the ISO 26000 standard and enhance their efforts in this area in order to effectively manage their community impact.
- awarded in the Financial Brand of the Year contest organised the *Gazeta Finansowa* weekly.

Marketing communication

With a view to ensuring the proper functioning of the banking sector, including protection of the interests of bank clients, as well as compliance with the principles of fair trading and good practices developed by financial market participants, in particular the Financial Market Good Practice, the Marketing Department applies appropriate rules for the formulation and publication of information and banking advertising, including the marking of communications. An opinion is prepared regarding each marketing material, both during the preparation of the material and in the course of marketing campaigns, in order to ensure compliance of marketing communications with the law, good practice and guidelines of the PFSA. The Bank did not identify any non-compliance with the above regulations and guidelines.

Stock exchange education (good practice)

DM BOŚ, as one of the first brokerage offices in Poland, has set store by solid education as the key for informed investing on the capital market. The DM BOŚ website offers a range of free training courses, e-learning workshops and tests that introduce the user into the world of investment and allow experienced investors to broaden their knowledge. The materials are prepared in a clear and user-friendly format.

An ample source of knowledge and research on the current economic and geopolitical situation are the bossa.pl blogs run by experts and analysts of Dom Maklerski BOŚ. The contribution of BOŚ Brokerage House to economic education of Poles has been frequently appreciated.

Dom Maklerski BOŚ engages in educational projects, including those undertaken jointly with the WSE Foundation, which are aimed at familiarising secondary school and university students with the capital market.

Procedures in brokerage activities

Due to the nature of its operations, Dom Maklerski BOŚ has in place detailed internal procedures for marketing and sales, which ensure compliance with the law, industry standards and ethical values of the Group. Marketing materials are subject to assessment by the Department for Supervision of Legal Compliance or the Team for Supervision of Foreign Branches. BOŚ Brokerage House prevents dishonest sales practices through such measures as constant employee education, monitoring of sales calls, and the remuneration system, which is based, among others, on quality parameters.

SOCIETY

Health, ecology and voluntary work are the main pillars of activity of the BOŚ Foundation, which has integrated the social initiatives of the Bank and Dom Maklerski BOŚ for more than 11 years. In accordance with its mission, the Foundation promotes and implements the rules of sustainable development, making sure that improvement of standards of life of citizens is not achieved at the expense of the natural environment.

Distinguishing features of activities and initiatives supported by the Foundation:

- true faith in the sense of systematic and long-term action,
- focus on durable social change,
- the scope, form, partners of programs adapted to specific needs of the local community,
- cooperation with persons and institutions sharing the values embedded in the Bank's social responsibility,
- pro-active attitudes of the Bank's employees- both at the stage of diagnosis of the needs of the local communities and involvement in voluntary work.

Pillars of social work of the Foundation

PILLAR	ACTIVITY ASSUMPTIONS	EXAMPLES OF INITIATIVES (FOR DETAILED DESCRIPTION, SEE THE WEBSITE OF THE FOUNDATION)
Health	Promotion of the role of healthy diet and physical activity for retaining a good health condition in the era of changing civilizational conditions	PlanujeGotuje.pl "Zdrowo jem, więcej wiem" (I Eat Healthy, I Know Better) project
Ecology	Raising of social awareness of sustainable development and environmental issues; Promotion of 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)
Voluntary work	Active voluntary work as a component of the corporate social responsibility policy, as well as one of the most significant components of the organizational culture, strengthening relations between co-workers	Micro-subsidies Pomagam cały rok (Helping All Year Long) Świat oczami młodych (World in the Eyes of the Young)

The scale of action (selected data)

- More than 1,400 participants of 335 student teams from all parts of Poland in the 6th edition of "Bet on the Sun". In total, the students prepared 240 designs of photo-voltaic micro installations for single family houses.
- 520 people from over 100 neighbourhood teams enrolled in the 6th edition of the Green Bench (27 grants were awarded).
- 32 thousand students took part in educational workshops on volunteer work, organised as part of the 4th edition of "World in the Eyes of the Young" competition.
- More than 2,400 submissions (more than 50,000 pupils and teachers) for the 10th edition of the health promoting program for grades 1 to 3 "I Eat Healthy, I know Better".
- More than 1,600 pupils and teachers established nearly 120 mini orchards where they planted approximately 700 fruit trees of old varieties.

Sustainable development initiatives

In 2020, the Bank carried out online workshops for young people in cooperation with the Ministry of Climate. The first workshop was related to the World Earth Day, while the subject of the second workshop was climate change resulting in desertification and drought. The online debate of young people with the participation of the Minister of Climate and academic experts on adaptation to climate change attracted more than 25 thousand students and teachers during both events.

The end of the year saw the start of a cycle of 10 educational films entitled "How climate works", shown on the "Science. I like it" vlog run by Tomasz Rożek, PhD. The first episodes on YouTube had more than 100 thousand views. BOŚ and the National Fund for Environmental Protection and Water Management are the partners of the project.

The Bank also entered into cooperation with the Polesie National Park, providing financial support to the Animal Rehabilitation Centre. In return, the Park agreed to the use of its logo in the Bank's marketing communications concerning a new series of debit cards with the images of protected animals.

BOŚ Group employee engagement

Micro subsidies

Some of the projects submitted in autumn 2019 edition were implemented in 2020. These were:

- “The Bench - Take a Break”
- “Herbal Garden”
- BiblioTerapia “Lecznica duszy” – therapy through reading a book/listening to an audiobook (a library for intellectually disabled users).

As the pandemic and the ensuing restrictions hindered the process of acceptance and implementation of volunteering projects, the way in which applications were accepted was changed – they were considered on a continuous basis instead of twice a year as in previous years. Grants were awarded for two volunteering projects:

- “We won’t let COVID-19 get us – our elders can rely on us”.
- “Dzieciakowo” – a terrace and garden beds for a foster care home.

In 2020, 22 volunteers took part in volunteering projects and managed to reach an estimated number of more than 2000 beneficiaries. The volunteers did almost 500 hours of work.

Pomagam cały rok (Helping All Year Long) (individual charity)

In accordance with the slogan of the initiative, employees of the BOŚ Group are eager to help all year long. Also new employees are welcome to join in voluntary activity (as part of the induction process, they are given a presentation explaining why it is a good idea to take part in charity work).

In 2020, thanks to the commitment of our employees:

- annual scholarships were financed for talented children from low-income families,
- financial support was provided to the Bank’s employees who found themselves in a difficult life situation.

A day off – for those who care (good practice)

An employee engaging in voluntary or environmental work is entitled to one additional day off during the calendar year. This is yet another incentive to encourage environmental efforts and help others.

VII. REPRESENTATION ON THE RELIABILITY OF PREPARATION OF THE 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 2020 and the Full-Year Financial Statements of Bank Ochrony Środowiska S.A. for 2020 have been prepared in accordance with the applicable accounting policies and give a true, fair and clear view of the assets, financial position and financial performance 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., gives a true view of the development, achievements and position 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
April 28th 2021	Wojciech Hann	President of the Management Board	Signed with qualified e-signature
April 28th 2021	Arkadiusz Garbarczyk	Vice President of the Management Board – First Deputy President of the Management Board	Signed with qualified e-signature
April 28th 2021	Robert Kasprzak	Vice President of the Management Board	Signed with qualified e-signature
April 28th 2021	Marzena Koczut	Vice President of the Management Board	Signed with qualified e-signature
April 28th 2021	Jerzy Zań	Vice President of the Management Board	Signed with qualified e-signature