



**ADJUSTED**

**REPORT OF THE MANAGEMENT BOARD ON  
THE ACTIVITIES OF THE CAPITAL GROUP  
OF BANK OCHRONY ŚRODOWISKA S.A.  
IN THE FIRST HALF OF 2021**

**Warsaw, August 2021**

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## SELECTED FINANCIAL DATA

GROUP	in thousand PLN		in thousand EUR	
	6-month period ended on 30-06-2021	6-month period ended on 30-06-2020	6-month period ended on 30-06-2021	6-month period ended on 30-06-2020
Interest and similar revenue	205,991	293,188	45,300	66,014
Fee and commission revenue	90,490	81,262	19,900	18,297
Result on financial instruments measured at fair value through profit or loss	30,952	34,699	6,807	7,813
Result on investment securities	-	3,726	-	839
Gross profit	17,757	58,692	3,905	13,215
Net profit	6,864	39,682	1,509	8,935

GROUP	in thousand PLN		in thousand EUR	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020
Total assets	19,675,003	20,505,829	4,352,106	4,443,492
Liabilities to the Central Bank and other banks	445,210	732,743	98,480	158,781
Liabilities to customers	16,050,198	16,560,715	3,550,300	3,588,609
Equity attributable to shareholders of the parent company	1,904,966	1,913,170	421,378	414,573
Share capital	1,461,036	1,461,036	323,181	316,598
Number of shares	92,947,671	92,947,671		
Capital ratio	15.89	14.86		

BANK	in thousand PLN		in thousand EUR	
	6-month period ended on 30-06-2021	6-month period ended on 30-06-2020	6-month period ended on 30-06-2021	6-month period ended on 30-06-2020
Interest and similar revenue	202,350	292,523	44,499	65,864
Fee and commission revenue	41,279	37,642	9,078	8,475
Result on financial instruments measured at fair value through profit or loss	10,725	10,994	2,359	2,475
Result on investment securities	-	3,726	-	839
Gross profit	14,630	52,690	3,217	11,864
Net profit	6,426	37,505	1,413	8,445

BANK	in thousand PLN		in thousand EUR	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020
Total assets	19,500,782	20,298,862	4,313,569	4,545,200
Liabilities to the Central Bank and other banks	445,210	732,743	98,480	164,071
Liabilities to customers	16,038,112	16,553,777	3,547,627	3,706,623
Equity attributable to shareholders of the parent company	1,901,764	1,910,406	420,670	427,767
Share capital	1,460,364	1,460,364	323,032	326,996
Number of shares	92,947,671	92,947,671		
Capital ratio	16.48	14.98		

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

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

### Results of the BOŚ S.A. Group

In the first half of 2021 the BOŚ Group reported a net profit of PLN 6.9 m, compared to PLN 39.7 m in the same period of last year.

The Group's results were negatively impacted by the low interest rates, which were lowered by decisions of the Monetary Policy Council in order to mitigate the economic impact of the 2020 pandemic by a total of 140 bps. As a result of the interest rate reduction, the BOŚ S.A. Group recorded a decrease in the interest income, which in the first half of 2021 was lower by PLN 23.7 million compared to the corresponding period of last year and by PLN 32.1 million in relation to the result obtained in the corresponding period of 2019. The decrease in the net interest income was to a large extent offset by an increase in the commission revenues, mainly from the brokerage activities. The low interest rates and the persistently high market volatility increased the individual customers' interest in the capital market. It is necessary to emphasize the increase of commissions and fees on customer accounts, loans, guarantees and letters of credit, as well as other domestic and international settlement transactions.

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

	thousand PLN		H1 2021	H1 2020	Change %
Net interest income		[1]	177,520	201,241	-11.8
Net fee and commission income		[2]	69,794	61,503	13.5
Result on financial instruments measured at fair value through profit or loss		[3]	30,952	34,699	-10.8
Result on legal risk of mortgage loans in foreign currencies			-9,050	-8,548	5.9
Result on other activities		[4]	8,750	19,774	-55.7
Result of impairment allowances			-63,149	-63,025	0.2
G&A costs		[5]	-197,060	-186,952	5.4
Gross profit			17,757	58,692	-69.7
<b>NET PROFIT</b>			<b>6,864</b>	<b>39,682</b>	<b>-82.7</b>

1. The Group's net interest income was lower by PLN 23.7 m or 11.8% than in the corresponding period of the previous year. The interest and similar income decreased by PLN 87.2 m or 29.7% as compared to the first half of 2020. The interest expense decreased by PLN 63.5 m or 69.0%. The decrease in the interest income and expenses was mainly a consequence of the lowering of the interest rates by the MPC.
2. The result on fees and commissions increased by PLN 8.3 m or 13.5% in relation to the corresponding period of 2020, mainly as a result of higher commissions for brokerage services, higher revenues from fees for handling customer accounts, other domestic and foreign settlement operations, revenues from loans and commissions on guarantees and letters of credit.
3. The result on financial instruments at fair value through profit or loss was lower by PLN 3.7 m or 10.8%. The lower result was mainly due to the lower volatility on the financial markets, which decreased the number of transactions executed by customers of Dom Maklerski BOŚ.
4. The lower result on other operations was mainly due to a PLN 12.5m adjustment of the interest and commissions on loans from previous years, classified as other operating expenses.
5. The Group's general administrative expenses were higher by PLN 10.1 m or 5.4% as compared to the corresponding period of 2020, mainly due to the salary costs higher by PLN 9.9 m or 12.0%.

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

	H1 2021	2020	Change in pps
Return on equity (ROE)	0.7	-14.9	-15.6
Return on assets (ROA)	0.1	-1.6	1.7
Interest margin on total assets	1.8	1.9	-0.1
Cost of risk	-1.2	-1.2	0.0
Costs/income (C/I)	65.9	62.0	3.9
Total capital ratio	15.89	14.86	1.03

The interest margin on total assets, calculated as the ratio of the net interest income to the average assets, was 1.8%, as compared to 1.9% for the 2020, mainly due to the reduction of the interest rates by the Monetary Policy Council.

The Group's level of capital adequacy both with and without the application of the transitional arrangements of IFRS 9 as at 30 June 2021 remained above the levels recommended by the Polish Financial Supervision Authority. The Common Equity Tier 1 ratio was 14.23% and the total capital ratio was 15.89%.

### BOŚ Strategy for 2021-2023

The Supervisory Board of Bank Ochrony Środowiska S.A. approved in June 2021 the Development Strategy of BOŚ S.A. for the years 2021-2023. The main direction of the strategic development of BOŚ S.A. is the further expansion of the Bank specialising in the financing of projects aimed at environmental protection, implementation of environmentally-friendly investments and modernisations, and commercialisation of eco-friendly technologies.

The goal of the Strategy of BOŚ and the Group is to improve all key indicators by 2023:

- ROE at 3.5%-5%,
- income on banking operations over PLN 600 m,
- C/I 54%,
- Share of green assets 50%,
- Obtaining the ESG rating;
- Employee engagement 58%.

### Activities of the BOŚ S.A. Group

In the first half of 2021, the BOŚ S.A. Group conducted its operations using a number of solutions aimed at reducing the epidemic risk, both for employees and customers visiting the branch chain. A significant part of the BOŚ S.A. Group's employees performed their duties remotely during that period.

The Bank and the Group entities maintained the solvency and liquidity ratios above the minimum regulatory levels and did not experience a significant impact of the COVID-19 pandemic on the liquidity and capital adequacy.

In the first half of 2021, BOŚ carried out its strategic projects concerning, among others, increasing the role of electronic distribution channels and adapting the traditional distribution channels to the new market challenges. A mobile payment card service for individual customers has been launched in the G Pay application. In April this year, the "BOŚ ID" service was implemented - users of the BOŚBank24 Internet banking system can confirm their identity in the online environment using the mojID service developed by the National Clearing House. MojID facilitates the use of both government and commercial provider services. The BLIK service implementation project was also completed. The work continued on the automation of the business processes in the Bank (RPA - Robotic Process Automation, a technology for automation of repeatable business processes using computer programmes commonly referred to as robots). In the first half of 2021, the work was carried out in preparation of new robots that will improve the Bank's operational activity in terms of, among others, verification of correct execution of direct debits and standing orders, or generation of letters to customers and public institutions.

## **Actions for the Bank's customers to mitigate the negative effects of the COVID-19 pandemic and protect the quality of the credit portfolio**

In the first half of 2021, as in the previous year, the Capital Group offered special solutions to customers to mitigate the negative effects of the COVID-19 pandemic, including support to help them maintain their liquidity. Customers took advantage of the options offered by the Bank:

- to receive support through BOŚ S.A. in the form of financial subsidies offered within the Financial Shield 2.0 of the Polish Development Fund (PFR). In total, 126 applications for financial subsidies for the total amount of PLN 43.9 m were accepted under the PFR 2.0 Shield,
- to obtain a guarantee from the Portfolio Guarantee Line from BGK Liquidity Guarantee Fund (PLG FGP) as collateral for a loan intended to ensure financial liquidity. The guarantee covered both newly granted loans and renewals of overdrafts and lines of credit. The offer was addressed to the sector of medium-sized and large enterprises. The total sales of loans covered by PLG FGP guarantees amounted to PLN 473.8 m,
- to obtain guarantees from the de minimis guarantee programme implemented under the governmental programme "Support for entrepreneurship with the use of BGK guarantees and sureties", implemented to improve the access to finance. The total amount of loans covered by the PLD-KFG de minimis guarantees was PLN 38.9 m,
- to obtain the Biznesmax Guarantee granted from the Guarantee Fund of the BGK Smart Development Operational Programme intended to support innovative undertakings in the SME sector. The total amount of loans covered by the Biznesmax guarantees was PLN 162.4 m,
- to obtain a factoring limit repayment guarantee from the Portfolio Factoring Guarantee Line of BGK Liquidity Guarantee Fund (LGF FGP). The guarantee is offered to SME customers and large enterprises affected by the COVID-19 pandemic for liquidity purposes - regardless of their line of business. The total amount of loans covered by the Factoring Guarantees was PLN 113.2 m,
- specific solutions for Jessica and Jeremie borrowers to mitigate the negative effects of the COVID-19 pandemic.

### **New guarantee agreements in the first half of 2021**

On 17 March 2021, the Bank entered into an agreement with Bank Gospodarstwa Krajowego regarding guarantees for entrepreneurs. The guarantees under the FGR portfolio guarantee line agreement are intended for micro, small and medium-sized enterprises (SMEs) operating in the agricultural sector.

On 26 March 2021, the Bank signed a cooperation agreement with Dolnośląski Fundusz Gwarancyjny Sp. z o.o. regarding the provision of sureties for credits and loans for micro, small and medium-sized entrepreneurs conducting business activity, having the registered offices or making investments in the territory of the Dolnośląskie voivodeship.

On 24 June 2021, the Bank signed an agreement with BGK for the portfolio guarantee line of the Green Guarantee Fund No. 2/PLG-EFPIG/2021. The Agreement introduced the BGK guarantee, in this case intended for natural persons wishing to take advantage of a preferential pro-environmental loan enabling them to obtain a subsidy from WFOŚiGW for partial repayment of the loan principal under the NFOŚiGW Clean Air Priority Programme. The loan is designed to finance projects involving the replacement of heat sources and the improvement of energy efficiency of single-family residential buildings and separate premises in such buildings.

### **Green loans in the credit balance**

The share of pro-environmental loans, i.e. loans granted for activities aimed at environmental protection and supporting sustainable development in the total loan portfolio as at the end of the first half of 2021 represented 35.46% of the Bank's total loan balance, compared to 36.34% at the end of 2020. The amount of pro-environmental loans as at 30 June 2021 was PLN 4.4 billion.

### **Development of cooperation with NFOŚiGW**

On 14 April this year, BOŚ S.A. and NFOŚiGW (the National Fund for Environmental Protection and Water Management) signed an agreement to provide financial resources for implementation of the Clean Air programme. It is aimed at increasing the availability of resources allowing for effective improvement of the air quality and reduction of harmful emissions by single-family houses.

On 6 July 2021, the Bank enabled applying for the government subsidy under the Clean Air programme and the related Clean Air Loan. The preferential offer of BOŚ is addressed to homeowners interested, among other things, in replacement of a furnace, purchase of a heat pump, window and door frames, installation of photovoltaic panels or insulation of building walls.

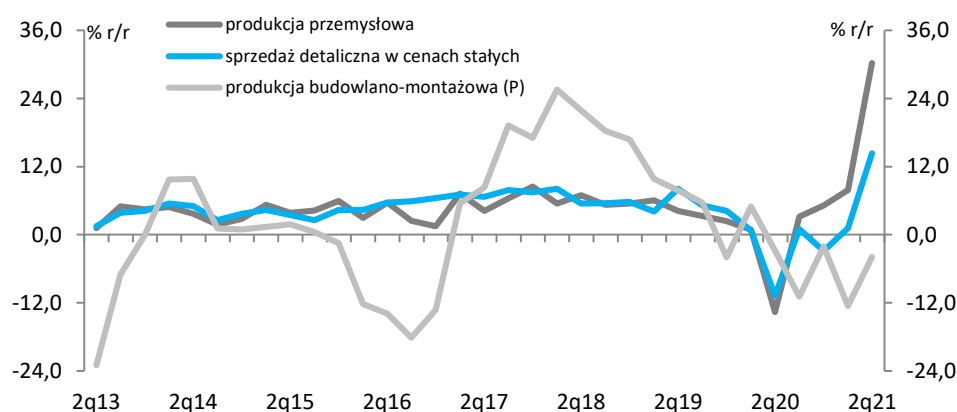
Moreover, the Bank cooperates with the Voivodeship Environmental Protection Funds under contracts for financing environmental projects, mainly in the area of air protection against pollution, including installation of photovoltaic panels and replacement of heat sources.

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

### 1. Macroeconomic situation

In the first half of 2021, the situation in the global and domestic economies continued to be determined by the COVID-19 pandemic, which lasted more than a year. After restrictions on socio-economic activities were in place in the first quarter of 2021, particularly in Europe, the second quarter, with the decreasing number of COVID-19 cases and the vaccination process moving forward, brought a gradual elimination of the pandemic-related restrictions, helping to boost the economic activity. A clear improvement in the economic activity was observed in the US and the euro zone.

In Poland, in the second quarter of 2021, the recovery of the industrial activity, as observed in previous quarters, continued amid the global recovery in international trade. This, together with the effect of the very low baseline in the second quarter of 2020, when the industrial activity fell sharply at the start of the pandemic, resulted in a 30.3% year-on-year increase in the industrial production in the second quarter. After the weak first quarter in construction, the construction activity picked up in the second quarter with more favourable weather conditions. As a result, the scale of the decline in output decreased in relation to the second quarter, 2020. In the context of lifting of epidemic restrictions, the activity in trade and consumer services surged in the second quarter. In the second quarter the retail sales rose by over 12% yoy, with a low reference base from the previous year.



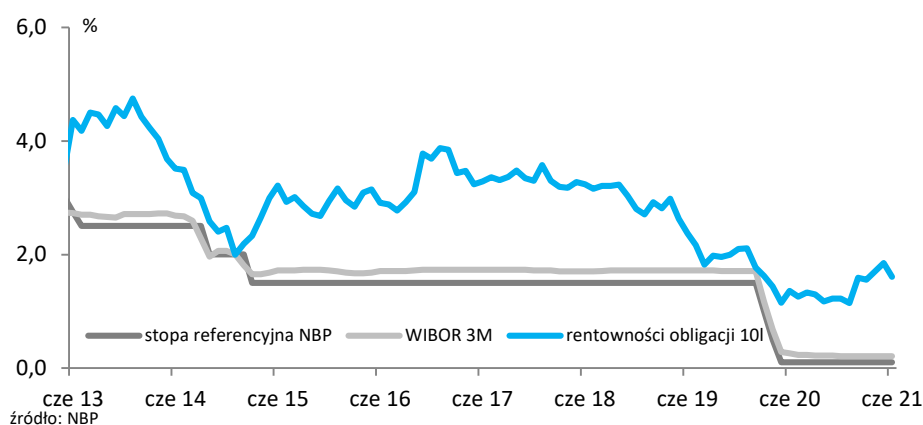


During the second quarter of 2021, the improvements in the labor market continued. With a low baseline from the second quarter of 2020, when the labour market was negatively affected by the pandemic-related limitation of activity, the employment dynamics in the corporate sector returned to positive values in the second quarter (reaching 2.8% in June), while the salary dynamics in the corporate sector was around 10% year on year. The registered unemployment rate decreased to 5.9% in the second quarter, as compared to 6.4% in March, and the number of unemployed dropped below 1.0m people at the end of June.

The inflation rate rose sharply in the first half of 2021 - to 4.3% in June as compared to 2.4% in December 2020. The increase in inflation was mainly influenced by the increase in fuel prices as a result of the increase in crude oil prices on the global market as compared to the very low levels in the first half of 2020. In addition, a gradual increase in the dynamics of food prices from the low level recorded in 2020 and of administered prices, among others, due to the increase in electricity prices for individual customers, had an impact on higher inflation. During the first half of the year, an elevated core inflation rate was also observed - among others, the effect of price increases during the period of lifting the epidemic restrictions and global problems in logistics supply chains.

In the first quarter of 2021, the NBP continued its loose monetary policy. The NBP reference rate was maintained at 0.10%; the deposit rate at 0.00%; the lombard rate at 0.50%, the bill rediscount rate at 0.11%; and the bill discount rate at 0.12%. At the same time, the central bank continued its financial asset purchase program that began in March 2020. From the beginning of the programme to the end of the second quarter the NBP bought assets worth PLN 135.80 billion.

In the second quarter of 2021, the government continued its business support programmes: The Anti-Crisis Shield (ZUS, WUP/PUP) and the Financial Shield (PFR). As part of the Anti-Crisis Shield (referred to as the "Industry Shield"), support was targeted at entities operating in one of of approx. 60 sectors defined by the PKD codes (hotel, event and tourist industries, but also education, medical and paramedical activities, retail sales, selected services). Enterprises operating in one of approximately 55 PKD sectors (hotel, event and tourism industry, as well as education, medical activities) could also benefit from the new SME Financial Shield (2.0) of the Polish Development Fund. The value of funds disbursed amounted in the second quarter of 2021 to PLN 5.4 billion, while BGK's loan guarantees reached the value of approx. PLN 8.6 billion. In June 2021, the PFR began preparing for the process of redeeming a portion of the preferential loans offered under Financial Shield 1.0.



For most of the first half of the year, the global financial market was dominated by optimism supported by expectations of a revival in activity with the expansion of the vaccination process and easing of the fiscal policy in the US. For the first six months of the year, the global equity market index increased by nearly 14% against the end of 2020.

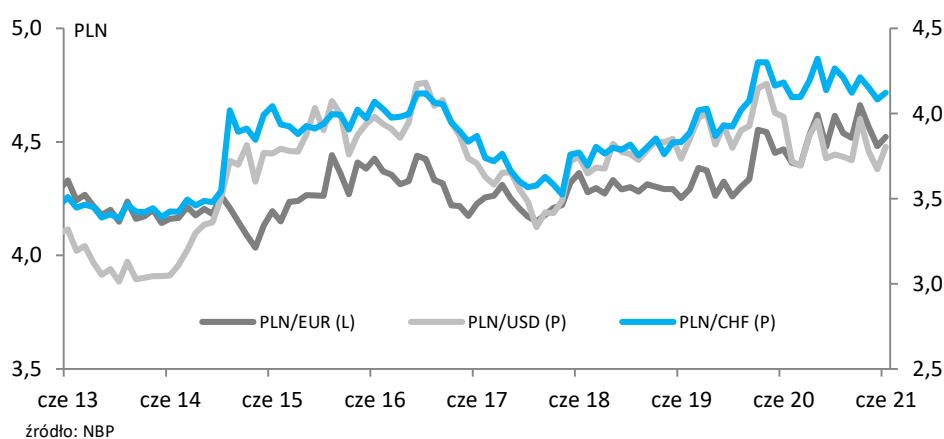
The periodical improvement of the global economic growth prospects were accompanied by the increased fears of a permanent rise in inflation, reinforced by a dynamic increase in raw material prices on the global market. As a result, in the second quarter, the yields on treasury securities on the core markets (US, Germany) continued to rise, clearly rebounding from their 2020 minimum levels. Towards the end of the second quarter,

the market expectations for a sustained increase in inflation weakened, which resulted in a decrease in the yields of treasury bonds from the local maximum levels observed in the second quarter.

The improved mood on the global financial market resulted in the strengthened domestic equity market and the stronger zloty exchange rate. The main domestic stock exchange index WIG increased by nearly 20% from the beginning of the year to the end of June. By the end of June, the zloty strengthened against the euro by more than 2% to 4.52 PLN/EUR, the zloty was stronger against the Swiss franc (by 3.4% to 4.12 PLN/CHF), while it depreciated against the US dollar (by 1.2% to 3.80 PLN/USD). Apart from the improvement in the global market situation, the appreciation of the zloty was supported by the postponement of the ruling of the Civil Chamber of the Supreme Court on loans denominated in foreign currencies.

The stabilization of the NBP monetary policy translated into stable levels of money market interest rates in the first months of 2021. During that period the WIBOR 3M rate remained at 0.21%.

In the context of a strong growth of treasury bond yields on the core markets and the growing domestic inflation, which fuel the market expectations of tightening the NBP monetary policy, the increase of domestic treasury bond yield started in the first quarter and continued in the second quarter. However, at the end of the second quarter, in response to the decrease in yields on the core markets and to the continued gentle stance of the Monetary Policy Council on interest rate prospects, the yields on long-term bonds decreased. From the beginning of the year until the end of June, the yields on 2-year bonds increased by 26 bps reaching 0.27%, while yields on 10-year bonds increased by 38 bps to 1.60% at the end of June (exceeding 1.95% during the second quarter).



## 2. The Bank's response to the COVID-19 pandemic

**The Bank offers a number of special products and solutions to companies affected by the COVID-19 pandemic and participates in activities aimed at supporting and assisting both entrepreneurs and natural persons**

- **Wider scope of the de minimis guarantee**

Pursuant to the Annexes to the agreement on the de minimis portfolio guarantee line concluded with Bank Gospodarstwa Krajowego under the National Guarantee Fund, the Bank introduced special solutions for companies affected by the difficult situation related to the COVID-19 pandemic. The de minimis guarantee programme is implemented under the government programme "Supporting entrepreneurship with the use of guarantees and sureties of Bank Gospodarstwa Krajowego". The de minimis guarantees were implemented to improve the access to finance for companies in the SME sector and to provide a range of widely available guarantees to support the development of companies. De minimis aid is a form of public aid allowed by the European Union regulations.

Detailed solutions:

- in case of covering a loan with a guarantee or increasing the amount of a loan covered with a guarantee in the period from 20 March 2020 to 30 June 2021, the amount of a unit guarantee of the loan repayment does not exceed 80% of the loan amount;
- in case of covering a working capital facility with a guarantee or extending a working capital facility covered by a guarantee in the period from 20 March 2020 to 30 June 2021, the guarantee is granted for a period no longer than 75 months;
- the possibility to guarantee investment loans for a period of 120 months;
- increase of the guarantee amount from PLN 3.5 m to the maximum amount resulting from the EU regulations on de minimis aid, i.e. EUR 1.5 m,
- the possibility to also guarantee loans in foreign currencies,
- waiver of the guarantee commission fee by 30 June 2021.

- **Broader scope of the Biznesmax Guarantee from the Guarantee Fund of the Smart Development Operational Programme**

The Biznesmax Guarantee has been offered by BOŚ S.A. in cooperation with BGK since 2017. The broader scope of the Biznesmax guarantee is designed to increase access to current financing as well as to enable SME companies to further develop their operations.

The guarantee is free of charge and secures up to 80% of the loan amount for the financing of innovative ventures and environmentally-friendly projects in the SME sector. The duration of the guarantee may not exceed 20 years. The beneficiaries of the guarantee may benefit from subsidised loan interest rates for up to 3 years. The subsidy consists of a refund of the interest paid.

In April, July and December 2020, the Bank signed Annexes introducing changes to the Biznesmax Guarantee.

Detailed solutions:

- the option of covering revolving working capital facilities, including revolving facilities in current accounts, with a guarantee constituting de minimis aid (thus, revolving facilities will no longer be released on the basis of financial and accounting documents, and expenditures will be documented only at the customer level),
- the maximum period for a revolving working capital facility is 39 months,
- in case of guarantees constituting de minimis aid, the catalogue of eligible costs and the obligation for the Borrower to submit an investment project plan as an appendix to the agreement with BGK have been abolished. Moreover, under the subjective evaluation path, an additional criterion was introduced as follows: "within the last 5 years I/we have implemented a pro-environmental project with an environmental effect". As a result, the guarantee covering a revolving working capital facility was made available to eco-efficient companies,
- the option of providing a guarantee constituting de minimis aid for non-revolving working capital facilities unrelated to an investment, which, together with revolving overdrafts, were named the 'COVID-19 pandemic liquidity facility',
- the option of covering the COVID-19 pandemic liquidity loan with a guarantee in case of a revolving facility and making the credit limit available for a subsequent period or increasing the credit limit amount, provided that the terms of the loan agreement are amended to include the Bank's acceptance of the collateral in the form of a guarantee,
- the option of covering a loan with a guarantee, provided that it meets the conditions of a loan that may be covered by a guarantee and is granted under the same rules, including the evaluation of the creditworthiness, with the rules applied by the Bank when granting loans for the same purposes, and the loan agreement has all the essential features of a loan agreement,
- extension of the validity period of the 5% annual rate for calculating the loan interest subsidy to 31 December 2021, the subsidies also apply to revolving loans.

- **Portfolio Guarantee Line from the Liquidity Guarantee Fund (PLG FGP).**

On the basis of the agreement on the portfolio guarantee line of the Liquidity Guarantee Fund signed with BGK in April 2020, the Bank introduced the Liquidity Guarantee addressed to the sector of medium-sized

and large enterprises. However, in December 2020, Annex No. 3 was concluded which maintained the terms of the liquidity guarantee and extended its term to 30 June 2021. The fund is a part of the government's Anti-Crisis Shield. The guarantee is granted to secure a loan for the purpose of ensuring financial liquidity and may relate to both new loans and renewed overdrafts and lines of credit, including those for which loan agreements were concluded no earlier than on 1 March 2020.

The basic parameters of the Liquidity Guarantee:

- guarantee coverage ratio - up to 80%,
- guarantee amount - up to PLN 200 m,
- total amount of a loan for an entrepreneur with the collateral from the Liquidity Guarantee Fund - maximum PLN 250 m,
- guarantee period - maximum 27 months and no longer than the credit period + 3 months,
- the guarantee is granted until 30 June 2021,
- a fee for the guarantee due to BGK is charged; foreign currency loans may be covered by the guarantee,
- a loan with the BGK guarantee cannot be used to repay another loan.

The Bank, pursuant to Annex No. 1 to the Agreement concluded in August 2020, introduced amendments consisting in:

- the possibility of guaranteeing syndicated loans;
- adding an annex to the application for guarantee - "Form containing information presented when applying for public aid related to preventing, counteracting and combating COVID-19 and its consequences" consistent with the model prepared by the OCCP;
- signing of an Agreement defining the rules of cooperation between BGK and BOŚ S.A. in terms of granting the repayment guarantee for a loan made available by the Bank within the syndicated financing.

#### ● **Changes to the COSME Guarantee**

The COSME Guarantee is another guarantee offered by the Bank to customers from the SME segment under a cooperation agreement with BGK.

In September and December 2020, Annexes No. 11 and No. 12 were signed to the Agreement on Portfolio Guarantee Line with a counter-guarantee provided by the EIF under the COSME Programme No. 6/PLG-COSME/2015 of 23 October 2015.

The changes introduced by the Annexes mainly concern:

- extending the duration of the guarantees for working capital facilities granted between 6 April 2020 and 30 June 2021 from 27 to 39 months;
- the possibility to extend the maximum rollover period of the revolving facility from 5 to 9 years;
- reduction to 0.7% of the guarantee fee for the above mentioned working capital loans for the period from 6 April 2020 to 30 June 2021;
- introduction of extended restructuring periods for loans with the COSME guarantee.

#### ● **Changes to the Creative Europe Guarantee**

The BGK Creative Europe guarantee is addressed to the cultural and creative sectors. Under Annex No. 3 to the Portfolio Guarantee Line Agreement with counter-guarantee granted by the European Investment Fund under the Creative Europe Programme No. 5/PLG - Kreatywna Europa/2019 (as amended), BGK reduced the rate of the commission fee payable under the guarantee for the period from 1 January to 30 June 2021, which is 0%.

#### ● **Factoring Portfolio Guarantee Line from the Liquidity Guarantee Fund (LGF FGP).**

In 2020, BOŚ S.A. expanded the BGK portfolio guarantee offer by introducing the Factoring Guarantee under the LGF FGP Liquidity Guarantee Fund. The introduction of the Guarantee was a result of the

factoring portfolio guarantee line agreement No. 14/LGF-FGP/2020 signed on 22 October 2020 with BGK under the Liquidity Guarantee Fund.

The Liquidity Guarantee Fund is a part of the so-called government anti-crisis shield.

The LGF FGP guarantee is designed for SME customers and large enterprises affected by the COVID-19 pandemic and intended for financial liquidity purposes - regardless of their line of business.

The basic parameters of the LGF FGP Guarantee:

- the guarantee may secure both a new and an existing factoring limit up to 80% of its value;
- the guarantee may cover factoring with recourse and reverse factoring;
- a factoring limit granted in PLN and in a foreign currency may be secured by the guarantee;
- the maximum guarantee period is 27 months;
- the total amount of factoring limits secured by the LGF FGP guarantees granted to a single entrepreneur may not exceed PLN 250 m.

The guarantees from the Liquidity Guarantee Fund will be granted until 30 June 2021.

### ● **FGR Portfolio Guarantee Line - Agricultural Guarantee**

On 17 March 2021, the Bank entered into another agreement with Bank Gospodarstwa Krajowego regarding guarantees for entrepreneurs. The guarantees under the FGR portfolio guarantee line agreement No. 12/PLG-FGR/2021 are intended for micro, small and medium-sized enterprises (SMEs) operating in the agricultural sector. The limit granted by BGK for the Agricultural Guarantee for BOŚ S.A. amounts to PLN 20 m and is available until 31 January 2022.

The basic parameters of the FGR Guarantee:

1. the Guarantee may cover a loan granted in accordance with the rules binding at BOŚ S.A. to a Borrower being:
  - a) a farmer or
  - b) a processor of agricultural products, or
  - c) a processor of non-agricultural products.
2. The Guarantee may cover non-renewable and renewable investment and working capital loans granted in PLN and intended to finance a part of or the entire investment costs or the working capital costs.
3. The Guarantee may represent no more than 80% of the loan amount and may not exceed:
  - a) PLN 5 m for a farmer or
  - b) PLN 10 m for a processor.

However, a working capital loan may be granted up to the amount not exceeding the PLN equivalent of EUR 200 thousand.

4. Guarantee period:
  - a) 183 months (or 120 months in case of a guarantee constituting de minimis aid) - for an investment loan,
  - b) 51 months - for a non-revolving loan;
  - c) 39 months - for a revolving working capital loan (including an overdraft facility).
5. The guarantee constitutes de minimis aid or public aid.
6. No commission fee for BGK.

In addition, Borrowers using loans secured by an agricultural guarantee until 30 June 2021 will benefit from the Interest Subsidy.

The interest subsidy will cover the loan period of no more than 12 months, starting from the date of the loan disbursement, and will amount to no more than 2% of the loan amount p.a.

- **Dolnośląski Fundusz Gwarancyjny**

On 26 March 2021, Bank Ochrony Środowiska signed a cooperation agreement with Dolnośląski Fundusz Gwarancyjny Sp. z o.o. regarding the provision of sureties for credits and loans for micro, small and medium-sized entrepreneurs conducting business activity, having the registered offices or making investments in the territory of the Dolnośląskie voivodeship.

In 2021, the Fund determined the maximum annual exposure under the loan repayment guarantees granted by the Fund to the Bank:

- for PLN 1 m in case of sureties for repayment of investment credits and loans;
- for PLN 4 m in case of sureties for repayment of working capital credits and loans.

The surety may cover new loans granted in Polish zloty intended exclusively for financing business activities. However, the surety period covers the period of the loan or credit extended by a maximum of 6 months. The value of the surety may not exceed 80% of the loan amount granted.

- **PFR Anti-Crisis Shield**

On the basis of the Agreement for the provision of services under the "PFR Financial Shield" programme signed with Polski Fundusz Rozwoju S.A. (PFR), the Bank enabled its customers to use funds under the aid programme launched by PFR under the Anti-Crisis Shield. The programme was targeted at enterprises affected by the COVID-19 pandemic.

In accordance with the adopted programme schedule, 31 July 2020 was the deadline for accepting applications for subsidies under the PFR 1.0 Financial Shield programme for micro, small, and medium-sized enterprises.

Applications for the Financial Subsidy under the PFR 1.0 Shield could be submitted by the Bank's customers until 31 July 2020. Customers could appeal against the PFR decision until 30 September 2020. Until 31 January 2021, the Programme Beneficiaries were obliged to submit to banks documents confirming the authorisation of persons submitting applications under the governmental program "Financial Shield of the Polish Development Fund for Small and Medium-Sized Companies 1.0".

In November 2020, the PFR presented the assumptions of the Financial Shield 2.0 programme, which aims at providing financial assistance to companies from 45 industries that had to limit or suspend their operations due to the COVID-19 outbreak.

On 14 January 2021, BOŚ S.A. signed an agreement with the PFR for the provision of services related to the process of granting financial subsidies by the PFR to Entrepreneurs. The PFR 2.0 Shield programme was launched on 15 January 2021. The Bank's customers were enabled to apply for a subsidy under the pandemic relief aid programme ANTI-CRISIS SHIELD 2.0. The applications were made available in the electronic banking BOŚBank24 and iBOŚ24.

On 5 February 2021, the PFR extended support to micro, small and medium-sized enterprises by 9 additional industries particularly affected by the COVID-19 situation.

Under the PFR 2.0 Shield the Bank's customers could apply for financial subsidies until 28 February 2021. The Bank accepted complaints about the negative decision of the PFR until 15 April this year.

In total, 126 applications for financial subsidies for the total amount of PLN 43.9 m were accepted under the PFR 2.0 Shield,

- **Loans granted under the Jessica and Jeremie initiatives**

As a result of arrangements made with the Fund Managers (Zachodniopomorska Agencja Rozwoju Regionalnego S.A., the Governor's Office of the Śląskie Voivodeship, Pomorski Fundusz Rozwoju Sp. z o.o.),

specific solutions for Jessica and Jeremie Borrowers were introduced to limit the negative effects of the COVID-19 pandemic, including:

- the option of introducing a six-month grace period in repayment of principal instalments and a four-month grace period in repayment of principal and interest instalments for the customers of Centrum Biznesowe Szczecin using the Jeremie and Jessica Zachodniopomorska I and II loans,
- obtaining individual approvals from the Governor's Office of the Śląskie Voivodeship for prolongation of loan repayments for customers of the Bank's Business Center in Katowice who benefit from the Jessica Śląska loans,
- the option of introducing changes to agreements for customers of the Gdańsk Business Centre who benefit from the Jessica Pomorska loans, in accordance with the annex signed with PFR Sp. z o.o.

In addition, on 28 January 2021, Annex No. 6 to the Funds Deposit and Management Agreement was signed with the Governor's Office. The provisions of the Annex enable the Bank's current customers holding JESSICA loans granted under the JESSICA Initiative from the Regional Operational Programme of the Śląskie Voivodeship to change the loan term from 15 years to 20 years.

### • **Technological innovation loans**

Bank Ochrony Środowiska S.A. is one of the banks granting Technology Loans as part of the Intelligent Development Operational Programme Sub-measure 3.2.2 "Loan for technological innovation". The loan may be taken by business entities operating in the territory of the Republic of Poland and it may be allocated for the implementation of technological investments. The loan provides financial support in the form of a technology bonus.

On 3 July 2020, an Annex to the Cooperation Agreement with BGK was signed. The most important changes that were introduced by the Annex are:

- elimination of the maximum limit on the technology bonus. Until then, the amount of the subsidy in the form of technological bonus, which the entrepreneur could obtain to cover the investment expenses, was PLN 6 m;
- the option to innovate on an enterprise scale, allowing the customer to introduce a product or service not previously offered to the company;
- the catalogue of eligible expenditures was extended;
- elimination of the obligation to make own contributions and allowing for financing up to 100% of the eligible expenditures of the project with the technology loan.

Due to the changes introduced by BGK regarding the amount of own contribution, for the Bank's customers preparing the full financial statement with the rating not worse than 8, the Bank allows for financing of up to 100% of the project eligible expenditures. For others, an own contribution of 10% is required.

### • **BGK Portfolio Guarantee Line - PLG - EFPiG - Clean Air Programme**

On 24 June 2021, the Bank signed an agreement with BGK for the portfolio guarantee line of the Green Guarantee Fund No. 2/PLG-EFPiG/2021. The Agreement introduced the BGK guarantee, in this case intended for natural persons wishing to take advantage of a preferential pro-environmental loan enabling them to obtain a subsidy from WFOŚiGW for partial repayment of the loan principal under the NFOŚiGW Clean Air Priority Programme.

The Clean Air loan with PLG - EFPiG Guarantee is intended to finance projects involving the replacement of heat sources and the improvement of energy efficiency in single-family residential buildings and separate premises in these buildings.

### **Basic features of the PLG-EFPiG Guarantee**

- addressed to natural persons,
- The PLG-EFPiG Guarantee may cover a non-revolving loan, the so-called Clean Air Loan, intended for the implementation of an objective consistent with the NFOŚiGW Priority Programme,
- the maximum term of the loan covered by the PLG-EFPiG Guarantee is 144 months,

- the maximum term covered by the PLG-EFPiG Guarantee is 147 months,
- the maximum loan amount is PLN 100 thousand,
- the guarantee amount constitutes 80% of the loan granted and may not exceed PLN 80 thousand,
- no commission fee for BGK,
- no collateral for BGK,
- loan currency PLN.

The guarantee with the Clean Air Loan not only provides financial support to the Bank's customers, but also strengthens the Bank's image by building a portfolio that finances one of the objectives of sustainable development.

On 6 July 2021, the Bank launched the sale of the Clean Air Loans where the PLG-EFPiG Guarantee (Clean Air Guarantee) is the obligatory collateral.

### • **Actions for the Bank's customers to mitigate the negative effects of the COVID-19 pandemic**

In view of the COVID-19 global pandemic, Bank Ochrony Środowiska S.A. undertook a number of actions aimed at minimising the impact of this external situation on the Bank's operations and its perception by customers and employees, while ensuring the highest possible security standard. The activities are widely described in the Annual Report. In particular:

- in case of contact between an employee and a person infected with coronavirus, the Bank has adopted COVID-19 testing as good practice,
- the Bank provided employees with vaccinations against COVID - 19 in cooperation with the Enel-Med clinic, which provides health care for the employees,
- the Bank introduced a telephone support service as part of the "Psychologist Online" project. BOŚ provides access to specialists who offer psychological support in work and life situations. The service is available to all employees 7 days a week, without leaving home.

### **The Bank's 30th anniversary**

- On this occasion, in January a letter from the President of the Management Board was sent to all customers of the Bank who agreed to receive correspondence by post, i.e. 122 thousand addressees - natural persons and companies. The anniversary was an opportunity to express gratitude for the trust placed in the Bank by its customers. The Visual Identification Book was also supplemented by the "BOŚ 30 years" label, which will be used in all marketing materials of the Bank this year.

### **Charitable actions**

- In February, under donation agreements, the Bank donated 450,000 certified surgical masks to two hospitals in the Kujawsko-Pomorskie Voivodeship, thus supporting the fight against coronavirus. The campaign to help the hospitals was coordinated by the Ministry of State Assets. The masks were donated to: the Władysław Biegański Regional Specialist Hospital in Grudziądz and the Jerzy Popiełuszko Voivodeship Specialist Hospital in Włocławek.

## **3. Significant events in the first half of 2021**

### **Distinctions and awards**



- In February 2021, Wojciech Hann, Vice-President of the Management Board heading the Management Board of BOŚ and Radosław Olszewski, President of the Management Board of Dom Maklerski BOŚ were granted the title of Financier of the Year 2020 by Gazeta Finansowa.
- In February 2021, the Environmental Mortgage Loan (for PLN 656,000, for 30 years) offered by the bank was ranked first in the list of "eco-loan" mortgages of the bankier.pl website.
- In January 2021, the BOŚ's economists, for another year in a row, took the top positions in the competition for the most accurate macroeconomic and market forecasts in 2020 organised by Gazeta Giełdy i Inwestorów "Parkiet". In March 2021, the BOŚ's economists took the second place in the 13th edition of the competition for the best macroeconomic analysts organised by the editors of "Parkiet" and "Rzeczpospolita".
- In March 2021, the supply chain financing offered by BOŚ based on mixed factoring was distinguished in the "Financial Order" competition of Home&Market magazine in the Factoring category. The competition is aimed at selecting outstanding financial institutions and their products - ones that make it easier to do business and meet customer expectations and their changing preferences and needs.
- In the March 2021 in the Institution of the Year ranking, the Moje Bankowanie portal recognised nine branches of Bank Ochrony Środowiska (BOŚ) as the best in Poland. These are the branches in Kielce, Koszalin, Kraków, Legnica, Łomża, Nowy Targ and the business centres in Poznań, Warsaw and Wrocław. The aim of the Institution of the Year competition organised by Moje Bankowanie is, among others, to reward the best bank branches and thus to improve the quality of the customer service.
- In early March this year, in the 18th edition of the National Investor Survey conducted by the Association of Individual Investors, investors voted DM BOŚ the Best Brokerage House of 2020. More than 3,000 investors participated in the survey. Investors gave the highest marks to the faultlessness of the trading platform. They also gave very high ratings to the offer of IKE/IKZE and foreign markets. DM BOŚ has ranked first for the second time in a row, having always been in the top three. Also in March, DM BOŚ was awarded the Bull and Bear prize in the Best Brokerage House category by the editors of Gazeta Giełdy i Inwestorów Parkiet. In the justification, the editors noted, among others, the quick reaction of DM BOŚ to the pandemic and the adjustment of work and customer service to the online channel. DM BOŚ once again received the Capital Market Leader statuette from the WSE for 2020 for the highest activity on the futures market and the highest market maker share in session trading in shares on NewConnect in 2020.

## Confirmation of the BOŚ S.A.'s rating

On 16 March 2021, Fitch Ratings (the Agency) affirmed the ratings and maintained the Bank's outlook.

The rating scores of BOŚ S.A. are presented below:

1. The Long-term Foreign Currency IDR was affirmed at 'BB-', negative outlook,
2. The Short-term Foreign Currency IDR was affirmed at 'B',
3. The National Long-term Rating was affirmed at 'BBB-(pol)', negative outlook,
4. The National Short-term Rating was affirmed at 'F3(pol)',
5. The Viability Rating was affirmed at 'bb-',
6. The senior unsecured rating was affirmed at 'BBB-(pol)',
7. The short-term senior unsecured rating was affirmed at 'F3 (pol)',
8. The subordinated rating was affirmed at 'BB (pol)'.

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 rating review. At the same time, the Agency expects that more information will be available after the announcement of the Supreme Court's verdicts and after the Bank has taken the final decisions regarding its participation in the voluntary conversion programme determined by the Chairman of the Polish Financial Supervision Authority (KNF).

## Annual contribution to the bank forced restructuring fund for 2021

In connection with receiving information on 22 April 2021 from the Bank Guarantee Fund, the Bank's Management Board announced that the amount of the annual contribution to the banks' compulsory restructuring fund for 2021, as established by the BFG for the Bank, is PLN 15,288.5 thousand (taking into account the contribution adjustment for 2020 in the amount of PLN -59.2 thousand). The contribution was charged as a one-off expense in the first half of 2021.

### **Provisions for legal risks relating to foreign currency loans**

On 26 April 2021, the Management Board of BOŚ S.A. decided to create a provision for legal risk related to mortgage loans denominated in foreign currencies. As at the publication date of the Report, the total amount of the provision was PLN 399 m. As at the report date, after taking into account the reduction of own funds, both the Bank and the Bank's Capital Group met the capital ratios recommended by KNF. (Current Report 16/2021 dated 26 April 2021).

### **Sale of receivables**

In the first half of 2021, the Bank sold loan portfolios with a total balance of approx. PLN 245.7 m (including PLN 46.2 m written to off-balance sheet records). The following portfolios were sold:

- portfolio 1 - unsecured receivables (among others, cash loans, overdrafts, credit cards) and receivables with realised mortgage collateral, whose total balance is less than PLN 100,000, with the balance of PLN 70.1m (including PLN 49.1m of principal),
- portfolio 2 - receivables with mortgage collateral and all the client's related products with the balance of PLN 22.9m (including PLN 15.2m of principal),
- portfolio 3 - receivables with realised or undetermined mortgage collateral, together with other related customer products, and unsecured receivables with the total balance higher than PLN 100,000 with the balance of PLN 25.8m (including PLN 14.6m of principal),
- portfolio 4 - receivables due to the Bank from partnerships and companies and partners of civil law partnerships and general partnerships, with the balance of PLN 126.9 m (including PLN 59.9 million of principal).

The impact of the sale on the Bank's net result was negative and amounted to PLN -6.5 m nettou3.

## **4. Key products, services and spheres of activity of the Group**

### **4.1. Banking products**

The Bank has products (deposit, loan, settlement products) offered to all groups of customers, as well as products addressed directly to selected groups of BOŚ S.A.'s customers.

The terms and conditions of cooperation with specific customer groups are adjusted to the changing market conditions and the needs of the Bank's offer addressees, while keeping in mind the objective of continuous improvement of the customer service efficiency.

#### **Institutional Customers Division**

BOŚ S.A. has a wide range of clearing, deposit and loan products, on the basis of which an individual offer tailored to the specific needs can be built for each customer. Within its clearing offer, the Bank maintains standard current accounts that have clearing functions and are used to gather funds and to effect domestic and international settlements.

As of 1 January 2021, there is also a separate offer of bank accounts for institutional customers of Bank Ochrony Środowiska S.A. who are natural persons carrying out business activities. This action fulfilled the requirements of the Act of 31 July 2019 on amending certain laws to reduce regulatory burdens (the "Regulatory Burden Reduction Act"), which introduced the term of Entrepreneur-Consumer.

In the area of clearing products in the second quarter of 2021:

- a new Powiernik application was implemented to handle housing trust accounts. Powiernik allows for automatic withdrawals from open residential trust accounts. It significantly simplifies and reduces the workload of the process of releasing funds from the account, both for the Customer and inside the Bank. These changes increase the attractiveness of the product on the market.
- changes were implemented to the systems and internal regulations to bring the Bank in line with Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No. 924/2009 as regards certain fees for cross-border payments within the Union and currency conversion fees,
- the Bank's systems were adjusted to the changes introduced by the Act of 27 November 2020 amending the Act on the Value Added Tax and certain other acts, as well as the changes planned under the Draft Act on the Financial Information System as regards the regulation enabling the updating of all or part of the data currently submitted to the STIR,

Regarding credit products:

- the Bank offered a loan for thermal modernisation and renovation projects to its customers, with a bonus from the Thermal Modernisation and Renovation Fund.
- In selected voivodeships, the Bank offers preferential loans for the implementation of environmental projects in cooperation with the Provincial Funds for Environmental Protection and Water Management.
- The Bank conducted activities aimed at optimisation and automation of the credit process at its different stages: customer acquisition, credit application assessment, credit decision making, funds disbursement, credit monitoring and administration. The project involved, among others, the implementation of a tool to support the evaluation process and the development of rating systems taking into account the specific nature of eco-friendly products.
- In the area of products for institutional customers, the product offer was modified. In view of the COVID-19 pandemic, the Bank extended the option to suspend principal repayments for loan products (excluding stock market loans) without the need to submit additional documents - the special mode for handling COVID credits and loans - 19.

## Local government units

The Bank cooperates with local government units. It provides comprehensive banking services to their budgets for effective cash management. Services for local government units are provided under the Public Procurement Law Act.

The Bank provides all standard deposit and loan products offered to the public sector customers. The special scope of BOŚ S.A.'s offer includes products aimed at financing pro-environmental projects (preferential and commercial loans), as well as credits from foreign banks to finance environmental protection undertakings and infrastructural investments, and also the European Offer, which is a package of products addressed to entrepreneurs, local governments and municipal companies.

In May 2020, the Bank introduced new terms and conditions for offering loans for thermal modernisation and renovation projects with a bonus from the Thermal Modernisation and Renovation Fund. In case of undertakings carried out in municipal buildings, including historic ones, where the investor is a commune or a commercial company belonging to a commune, local government units may apply, among others, for a higher renovation premium amounting to 50%, or even 60% of the renovation project costs.

## Individual Customers Division

The Bank's offer for individual customers includes all basic products and services available on the Polish banking market (bank accounts, clearing products, payment cards, cash surplus placement products and services, e-banking services and loan products), as well as a wide range of pro-environmental products used for financing pro-environmental solutions, and services for VIP customers provided by specialised consultants.

In the second quarter the Bank introduced a promotion for EKOkonto Oszczędnościowe Na Zielony Start. The promotion consists in increasing the interest rate on funds accumulated on the account to 0,5% for the balance of up to PLN 50 thousand. The promotion is intended for new customers who:

- hold or will open an EKOkonto oszczędnościowe savings account
- will open a checking and savings account with a debit card,
- have inflows to the checking and savings account of at least PLN 2 thousand,
- make card transactions for at least PLN 500,
- have access to the BOŚBank24 Service and the Mobile Application
- are "ECO-friendly" - the statements and changes to regulations are sent electronically.

In this segment changes were also implemented to the systems and internal regulations to bring the Bank into compliance with Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.

The Bank developed its offer of open-ended investment funds to diversify solutions available to customers, tailored to their investment needs and the acceptable investment risk profile. The Bank's customers could use over 300 open-end investment funds. The Bank's business goal was also met with respect to increasing the productisation of customers and the sales revenues in the retail segment, in particular in the sub-segment of VIP customers.

### **Liabilities to individual customers**

In the second quarter of 2021, the Bank's actions in the area of deposit products for individual customers were focused on:

- care for cost optimisation of the deposit portfolio and ongoing adaptation to the changing market environment,
- maintaining the deposit balance in line with the Bank's liquidity needs.

The most significant deposit products for individual customers were:

- current accounts, including personal accounts with the basic EKOkonto bez kosztów account and savings accounts with EKOkonto Oszczędnościowe in PLN,
- promotional deposits: EKOLokata Na Dobry Początek, EKOLokata Zyskowna and standard deposits,
- foreign currency deposit: EKOLokata z Frankiem in CHF.

At the same time the offer included products aimed at building permanent relations with customers, e.g. customers actively using checking and savings accounts.

In January 2021, the Bank reduced the standard interest rate on savings accounts (EKOkonto Oszczędnościowe, EKOProfit and Więcej za Mniej), which contributed to lowering the Bank's interest costs.

Additionally, in January 2021, the Bank amended certain fees in its Fee and Commission Schedule. The change involved:

- an increase of account maintenance fees for EKOkonto bez Kosztów and accounts withdrawn from the sale offer,
  - an increase of the inflow exempting from the fee for maintaining the EKOkonto VIP account,
- which will contribute to the growth of the Bank's commission revenues.

The Bank's other business in the area of savings and checking accounts focused on maintaining a transparent offer by the following keeping savings and checking accounts on offer: EKOkonto bez Kosztów, EKOkonto VIP, EKOkonto PRP and EKOkonto oszczędnościowe in three currencies: PLN, EUR and CHF.

To support the sales of credit products addressed to individual customers, promotional campaigns for the Cash Loan were carried out:

- for any purpose:
  - “Portfel Zapasowy”, next edition introduced on 16 March 2021 - continuation of the idea of providing customers with financing for any purpose in the field of medium-term loans, also offered with the insurance,
- for environmental purposes:
  - “Our Water”, a continuation of the offer with the expiry date of 31 May 2021 to support investments aimed at preventing and counteracting the effects of drought, complements the government programme "My Water" and is the only loan product of this kind certified with the "Climate Leadership" label.
  - “Pełnym Oddechem”, a partnership offer dedicated to the current and future customers of PGNiG supporting the customers' activities in the area of heat source replacement and other anti-smog measures. The offer was included in the Bank's portfolio.
  - “Przejrzysta Pożyczka”, the Bank's leading product dedicated to supporting the Eco-Investments of customers in the commercial market and customers who are beneficiaries of the Clean Air government programme. The offer in its new form will be included in the Bank's portfolio throughout the first quarter of 2021,

“Energia ze słońca”, a continuation of the offer dedicated to renewable energy sources intended mainly for the purchase and installation of photovoltaic systems.

The standard EkoKredyt PV offer was also modified, the loan term and the maximum loan amount were adjusted to customers' expectations, the catalogue of product purposes was extended and the collateral rules were simplified. This made the product more competitive.

As a result of the change in the parameters of the cash offer, the Golden Banker award was granted to the Bank for the second place.

The Bank offers a mortgage loan for holders of the Large Family Card. They are exempt from the initial commission or exempt from 50% of the initial commission together with a margin reduction by 0.1 pps compared to the standard margin.

Under the preferential terms and conditions of the offer for the financial sector, the Bank offers lower commission and margin than the standard mortgage credit and mortgage loan offer. The offer is addressed to employees of:

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

The Green Mortgage Credit, whose advantages were recognised, among others, by the jury of the Golden Banker competition, is the hallmark of the mortgage offer of the Bank. The Bank's mortgage offer received the silver award.

## **Insurance products and additional services**

The Bank offers insurance products such as: insurance of the loan object, including environmental protection equipment and installations, 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 employee safety and convenience, all insurance training and licensing exams are conducted remotely.

As additional services to the banking products generating additional commission revenues, the Bank offers a legal assistance service - Mecenat Direct for holders of personal accounts, under which customers receive professional legal aid via e-mail and telephone.

## Information on the Bank's environmental activities, including in cooperation with NFOŚiGW, WFOŚiGW and other institutions in the period under review.

BOŚ S.A. developed its activities on the market of financing eco-friendly projects. The balance of pro-environmental loans as at 30 June 2021 was PLN 4,374.7 m. The share of transactions financing environmental protection activities and supporting sustainable development in the loan portfolio represents 35.46% of the Bank's total loan balance (compared to 36.56% at the end of the first quarter of 2021).

### The segment structure of the balance of green loans (by principal value)

	thousand PLN	30-06-2021	31-12-2020	Change in pps
Pro-environmental loans granted to institutional customers		3,927,899	4,245,699	-7.5
Pro-environmental loans granted to natural persons		446,780	414,726	7.7
<b>PRO-ENVIRONMENTAL LOANS</b>		<b>4,374,679</b>	<b>4,660,426</b>	<b>-6.1</b>

In the first half of 2021, the cooperation with the Bank's main shareholder, NFOŚiGW, focused on acquiring new customers who apply for or have obtained direct support from NFOŚiGW under the EU or national aid programmes to co-finance pro-environmental projects, and on work aimed at engaging the Bank in servicing the NFOŚiGW Clean Air programme.

On 14 April this year, an agreement was signed between BOŚ S.A. and NFOŚiGW (the National Fund for Environmental Protection and Water Management) to provide financial resources for implementation of the Clean Air programme. It is aimed at increasing the availability of resources allowing for effective improvement of the air quality and reduction of harmful emissions by single-family houses.

On 6 July 2021, the Bank enabled applying for the government subsidy under the Clean Air programme and the related Clean Air Loan. The preferential offer of BOŚ is addressed to homeowners interested, among other things, in replacement of a furnace, purchase of a heat pump, window and door frames, installation of photovoltaic panels or insulation of building walls.

The maximum value of a subsidy from the Clean Air programme is PLN 37,000. The aid, which can be applied for under the so-called bank path, can be obtained with taking a preferential loan at the same time. The maximum loan amount that you can apply for is PLN 100,000. The annual percentage rate (APR) is 6.11%. The Bank does not require an own contribution, and the loan is covered by the BGK guarantee.

Such a combination of both financial products - a subsidy and a loan - means that the cost of the investment can be largely repaid thanks to the government subsidy.

Moreover, the Bank cooperates with the Voivodeship Funds for Environmental Protection under the existing agreements for financing environmental projects, mainly in the area of air protection.

Bank Ochrony Środowiska started the process of preparing for the ESG rating, which is an assessment of the institution's activity in terms of environmental impact, social responsibility and corporate governance (ESG - environmental, social, governance). The ESG factors will play an increasingly important role in building BOŚ's competitive position and in the holistic perception of the Bank by its stakeholders. The ESG rating is expected to be obtained by the end of 2021.

## 4.2. Brokerage activities

In the first half of 2021 the situation on the Warsaw Stock Exchange was favourable for investors. All the most important stock exchange indices recorded increases in quotations, with the scale of growth ranging from +11.8% (Wig20) to +27.9% (sWig80). The Wig index rose by 15.9%. In the cash market, investor activity was higher than in the same period of the previous year. The volume of session trading on the regulated market of Dom Maklerski BOŚ increased by 40.9% year on year.

The market share of Dom Maklerski BOŚ on the WSE stock market in the first half of 2021 in session transactions amounted to 4.29%, which means that it was higher by approx. 10% than in the first half of the previous year (3.91%). In the futures segment, the share of session transactions was 18.24% (in the first half of 2020 the share

was 21.28%). Dom Maklerski BOŚ was the leader of the futures market and ranked third on the NewConnect market with a 14.94% share in the first half of 2021.

In the first half of 2021, the primary market was very buoyant, as evidenced by the high oversubscription of the IPO shares on offer. The WSE's regulated market alone saw eight new listings in that period, three of which were transferred from NewConnect. DM BOŚ was the offering agent at the issuances of shares of Triggo SA and Urteste SA and participated in the distribution consortia of HUUUGE Inc., Bioceltix SA, Captor Therapeutics SA, Vercom SA, Pepco Group N.V, Console Labs SA, Shoper SA and Onde SA, as well as series AK2 and AK3 bonds of Kruk SA. Dom Maklerski also placed an issue of green bonds series F of Columbus Energy SA. At the same time DM BOŚ developed cooperation with AgioFund TFI with regard to ETF funds offer. DM BOŚ conducted a founding offer of series A certificates of the Beta ETF WigTech fund and introduced to trading on the regulated market the certificates of Beta ETF NASDAQ-100 PLN-Hedged, Beta ETF S&P 500 PLN-Hedged and Beta ETF WigTech funds for which DM acts as the offering agent and market maker.

The first half of this year was very successful for DM BOŚ in terms of the number of opened investment accounts. The number of accounts increased by 7,067, which means that the growth was slightly lower than in the first half of the previous year (+7.409). After the first half of this year, DM BOŚ ranks second among all brokerage houses in terms of the growth in the number of brokerage accounts registered with KDPW. Dom Maklerski is the sixth brokerage house to maintain over 100 thousand accounts registered with KDPW (101.4 thousand at the end of June this year).

The strong market position and high quality of the provided services once again contributed to awarding industry awards to DM BOŚ.

In the face of the ongoing COVID-19 pandemic, Dom Maklerski BOŚ maintains a full operational continuity and supports all key processes. Dom Maklerski introduced a number of solutions aimed at maintaining the continuity of its operations and limiting the epidemic risk, both with regard to its employees and customers visiting the branches of Dom Maklerski BOŚ in person. A significant portion of DM's employees perform their duties remotely. In response to the exceptional epidemic situation, DM BOŚ implemented an option of opening an investment account online. Following the increased volatility caused by the Covid-19 pandemic, we have seen an increase in both the existing customer activity, and in interest in opening new investment accounts, which positively impacts the Company's ongoing financial performance and liquidity. The COVID-19 pandemic did not change the objectives, strategic orientation and liquidity risk management strategy of DM BOŚ. During the first half of 2021, BOŚ DM did not receive support and did not apply for public support under the government's Anti-Crisis Shield programme, which is designed to protect against the crisis caused by the COVID-19 pandemic.

## 5. Cooperation with foreign financial institutions at BOŚ S.A.

The Bank continued to cooperate with international financial institutions, including the European Investment Bank (EIB), which is one of the Bank's lenders.

Lender	Amount of loan	Amount to be used	Currency	Date of contract	Date of principal repayment
Council of Europe Development Bank, Paris	50,000	-	EUR*	17-03-2008	1st tranche 25-04-2023 2nd and 3rd tranche 25-10-2023
Council of Europe Development Bank, Paris	50,000	-	EUR	8-03-2010	1st tranche 22-04-2025; 2nd tranche 9-07-2021 3rd tranche 15-12-2021
European Investment Bank, Luxembourg	75,000	-	EUR	8-02-2012	2nd tranche 15-03-2021 3rd tranche 15-12-2021
Council of Europe Development Bank, Paris	75,000	-	EUR	26-03-2012	1st tranche 26-07-2021 2nd tranche 21-10-2022 3rd tranche 1-12-2023
European Investment Bank, Luxembourg	75,000	-	EUR	05-03-2015	1st tranche 15-06-2023 2nd tranche 15-12-2023
European Investment Bank, Luxembourg	75,000	-	EUR	13-06-2017	1st tranche 15-12-2028 2nd tranche 15-12-2029 3rd tranche 15-12-2030
TOTAL EUR	475,000				

\* use in PLN or EUR

## 6. Investment in human resources - training

The development of competency focused on business competencies supporting the Bank's transformation and the implementation of the strategic assumptions in the creation of the Framework Development Strategy of Bank Ochrony Środowiska S.A. for the years 2021-2023. The Bank's new development plan takes into account the economic implications of the COVID-19 pandemic and the EU and national projects working towards climate neutrality.

A total of 4,013 participants took part in stationary and remote trainings, including 3,857 participants in group trainings and 156 participants in individual trainings.

The scope of the competence enhancement included:

- trainings in the sales network: banking systems, applications, products and processes, sales standards and Customer Service Quality, bank security policy, e-banking, foreign currency cashing courses, etc.,
- in the area of risk issues: IFRS9 Classification and measurement of impairment in the environment of the COVID-19 pandemic and regulatory changes regarding the definition of default; impact of COVID-19 on commercial real estate segments; MIFID II in the activities of financial institutions, complaints; beneficial owner - customer risk analysis and assessment; practical challenges related to Recommendation Z on the internal governance rules in banks, etc.
- in the area of security issues: Cybersecurity management, cooperation between the police and the banking sector in crime prevention, PSD2 Directive and security, crisis management in case of a



cyberattack; Cybersecurity - identity management, bank secrecy in banking practice, Certified Ethical Hacker, Certified Information Systems Security Professional, Elastic Stack - a platform for aggregation and analysis of logs, cybersecurity audit workshops.

- in the area of IT issues: data quality management, ansible workshops for IT Operation Team employees, certified training in planning, implementation, customisation and administration of the IBM PowerHA SystemMirror 7 solution, etc.,
- in the area of managerial competence development: coaching for Business Centre Managers, Workshop Standards - training for managers, HR Business Partners and Pyramid of Effective Management.
- in the area of development training for employees: labour law, Train the Train - an Expert in the Role of a Trainer, COVID-stress work in another reality training, training in Lean Six Sigma Yellow Belt, supplementary training to Lean Six Sigma Green Belt, Labour Law for HR Business Partners, etc.

The e-learning training library was used by a total of 822 participants, with many taking part in more than one and so the number of participants actively using the e-learning training library is a total of 1,959.

The topics primarily included the knowledge of:

- the most important AML/CFT rules and procedures, to the extent applicable, in particular the identification and verification of the beneficial owner and the correct use of the Dow Jones resources,
- competencies identified in the appendix to the Insurance Distribution Act (IDD) ensuring compliance with the requirement that each agent or individual performing agency activities must attend 15 hours of professional training annually,
- cybersecurity,
- products of the individual customer market area, i.e. bank accounts (including Basic Payment Account), cash loan, deposits, mortgage loans, including the green offer,
- products of the institutional customer market area, i.e.: clearing products, factoring, bonds, guarantee instruments, treasury bonds, credit facilities, including the green offer,
- guarantee instruments providing better access to finance for SMEs
- the Bank's role as an Investment Company Agent and the issues related to offering investment products (compliance with MiFID II Directive and ESMA guidelines),
- internal standards concerning the quality of customer service, the sales process and internal cooperation,
- procedures, information on security and protection of personal data in an organisation, as well as legal requirements resulting from the GDPR,
- operational risk issues, including the elementary rules of physical security of cash, cash and non-cash transactions, the process of handling complaints (including reports on unauthorised payment transactions), the quality of data submitted to external databases and applications enabling reporting operational risk incidents, the Def3000 system, the operation of the new cash management application AZG and BackOffice24,
- banking ethics,
- preventing mobbing;
- environmental issues, including RES technologies,
- the BOŚ Sales Network Manager Development Programme.

Moreover, in this formula, the product knowledge, environmental knowledge and competencies were tested, and training in personal development and soft skills were carried out, including issues such as: assertiveness, interpersonal communication, public speaking.

## 8. Selected figures concerning the Group's activities

	thousand	30-06-2021	31-12-2020	Change %
<b>BANK OCHRONY ŚRODOWISKA S.A.</b>				
Number of customers		194.8	216.8	-10.1
Number of individual customers		176.9	197.1	-10.2
Number of institutional customers		17.9	19.7	-9.1
Number of customers using electronic channels		107.2	119.0	-9.9
Number of savings and checking accounts <sup>1</sup>		185.8	208.9	-11.1
Total payment and credit cards		71.5	79.7	-10.3
Number of branches (pcs)		51	51	0.0
<b>DOM MAKLERSKI BOŚ S.A.</b>				
Number of investment accounts		127.1	120.1	5.8
including the number of online accounts		123.9	116.8	6.1

1) together with savings accounts

As at 30 June 2021, the number of Bank branches was 51, including:

- 13 Business Centres,
- 38 Operating Divisions.

## 9. Directions of the Bank's development

### Information on the adopted Development Strategy

On 22 June 2021, the Supervisory Board of Bank Ochrony Środowiska S.A. approved the Development Strategy of Bank Ochrony Środowiska S.A. for the years 2021-2023, which takes into account the current market and macroeconomic conditions, as well as the Bank's ambitious strategic and development objectives related to green transformation.

The main direction of the strategic development of the Bank will be the further expansion of the Bank specialising in the financing of projects aimed at environmental protection, implementation of environmentally-friendly investments and modernisations, and commercialisation of eco-friendly technologies.

The Bank's mission: "Innovative and effective support for green transformation" is to highlight the directions of the Bank's activities for the greening of the Polish economy and the methods of their implementation. The bank aims at introducing innovative financial solutions which will contribute to the effective implementation of the green transformation.

The Bank's vision is: "Comprehensive financing of green transformation by offering unique products, dedicated experts and a variety of financial instruments". The Bank's ambition is to specialise in financing projects that contribute to the green transformation. The Bank has unique environmental and business expertise in financing the wide "green" sector, and more broadly, the green transformation across all sectors of the economy, as well as many years of experience in analysing the environmental risk. It creates new financial products thanks to which customers can implement their business projects while respecting the natural resources.

In accordance with the BOŚ strategy, the Bank's activity will focus on five main pillars:

- 1) Ecology and Climate - key objectives:
  - Continued development of competences in ecology and emission reduction technologies, sector expertise and green financing
  - Offering valuable consulting services on green transformation, taxonomy, adequate technologies and

available public resources

2) Business model - key objectives:

- Strong development of the partnership cooperation based on digital channels - the most convenient channel for the customer, which is also cost-effective for the Bank
- Financing of green transformation for corporate and LGU clients
- Development of comprehensive consultancy services and providing support to corporate customers during the full cycle of investment projects

3) Operational efficiency - key objectives:

- Aligning the operating model with the Bank's new business strategy
- Optimisation of key processes for customers (e.g. credit process) and internal processes

4) Organisational culture - key objectives:

- Cultural change within the organisation - increasing employee involvement and competence development
- Introduction of a new working model - agile and hybrid

5) Finance - key objectives:

- Introduction of a sustainably profitable business model and improvement of the Bank's rating
- Abandoning the Recovery Proceedings Programme
- Diversification of the sources of financing and gradual reduction of financing from retail customers
- Active inclusion of financing from external sources

The strategy of BOŚ and the Group aims to improve all key indicators by 2023:

- ROE at 3.5%--5%,
- Income on banking operations over PLN 600 m,
- C/I 54%,
- Share of green assets 50%,
- Obtaining the ESG rating;
- Employee engagement 58%.

Intensive work is currently underway to operationalise the new Strategy, including defining and prioritising new strategic undertakings, reviewing the strategic initiatives carried out so far from the perspective of their alignment with the new strategic objectives of the Bank.

### Information on actions taken as part of implementation of the Strategy

In the first half of 2021, the strategic projects were carried out, concerning, among others, increasing the role of electronic distribution channels and adapting the traditional distribution channels to the new market challenges.

Following the implementation of the new Internet banking, work continued on the expansion of electronic and mobile banking with more new functionalities. A mobile payment card service for individual customers has been launched in the G Pay telephone application. Currently work is underway to register the mobile card in the BOŚ mobile application. In April this year, the "BOŚ ID" service was implemented - users of the BOŚBank24 Internet banking system can confirm their identity in the online environment using the mojID service developed by the National Clearing House. MojID facilitates the use of both government and commercial provider services. Now you will be able to handle online many issues which so far required a personal visit to the office, medical facility or another service provider (e.g. insurance, electricity, telecommunications). Additionally, the BLIK service implementation project was completed - as of 5 July this year the users of the BOŚBank24 mobile application can make BLIK payments.

The chatbot functionality of the [www.bosbank.pl](http://www.bosbank.pl) website was launched. It is designed to help customers get answers to their questions and reach the information they need. The BOŚ chatbot answers the most frequently asked questions and will eventually address most topics related to the current service and product offer. In the future, it will also act as a virtual eco-advisor.

The work continued on the scalability of the business process automation in the Bank (RPA - Robotic Process Automation, a technology for automation of repeatable business processes using computer programmes commonly referred to as robots). In the first half of 2021, the work was carried out in preparation of new robots that will improve the Bank's operational activity in terms of, among others, verification of correct execution of direct debits and standing orders, or generation of letters to customers and public institutions. All the robots implemented last year (sending credit decisions, registering insurance policies, issuing certificates for repaid loans, verifying the promotional conditions for green loans) are still aimed not only at relieving the employees performing tedious and repetitive business processes, but also at improving the customer service.

In February 2021, the National Fund for Environmental Protection and Water Management (NFOŚiGW) announced a call for banks interested in joining the Clean Air programme, which BOŚ decided to join. As a result of the actions undertaken, an agreement was signed between NFOŚiGW, WFOŚiGW and BOŚ. The agreement provides for funds to be made available to the Bank to be used for partial repayments of the principals of bank loans granted for projects implemented under the Programme. BOŚ is one of the first two banks to make the Clean Air Loan available. The maximum value of a subsidy from the Clean Air programme is PLN 37,000. The governmental aid, which can be applied for under the so-called bank path, can be obtained with taking a preferential loan at the same time.

The Bank started the process of applying for the ESG rating, which is an assessment of our business in terms of environmental impact, social responsibility and corporate governance - ESG - environmental, social, governance. A renowned ESG rating company will be selected. A review and gap analysis of our operations and activities in the ESG areas is currently underway. In the next steps, the ESG Strategy will be developed and the ESG report will be prepared, the content of which will respond to the needs of investors and will also be an important source of knowledge for rating agencies, which will ultimately make it possible to apply for and obtain the ESG rating.

Bank Ochrony Środowiska continues its activities under the "Climate Leadership powered by UN Environment" programme, targeting sustainable and positive environmental, social and business impacts in two dimensions: external and internal. According to the strategic assumptions, BOŚ will focus on actions responding to the challenges concerning the economy's recovery from the slowdown caused by COVID-19 and on implementation of the green transformation in Polish companies and local governments, in line with the European Green Deal and the National Recovery Programme. The Bank will finance pro-environmental projects in such key areas of the economy as energy, construction, industry, transport and logistics. The second dimension is the internal operations of the organisation. According to the report by the Institute for Sustainable Development, in 2020 the bank reduced its carbon footprint by 49% as compared to 2019. The most significant factor influencing this change was the institution's transition to renewable electricity.

## 10. Organisation of the Capital Group

### Structure of the Capital Group

List of consolidated subsidiaries of the BOŚ Group as at 30 June 2021:

Subordinated entities	Registered office	Share % in the Company's capital	Share % in votes	Consolidation method
Direct subsidiaries				
Dom Maklerski BOŚ S.A.	Warsaw	100%	100%	Full consolidation

BOŚ Leasing - EKO Profit S.A.	Warsaw	100%	100%	Full consolidation
Indirect subsidiary (subsidiary of BOŚ Leasing - EKO Profit S.A.)				
MS Wind sp. z o. o.	Warsaw	100%	100%	Full consolidation

Dom Maklerski BOŚ S.A. - is a direct subsidiary operating on the capital market, in particular providing brokerage services;

BOŚ Leasing - EKO Profit S.A. - is a direct subsidiary undertaking, involved in leasing activities with respect to the financing of eco-friendly projects and financial services that complement the Bank's range of services;

MS Wind Sp. z o.o. - is an indirect subsidiary (100% involvement of BOŚ Leasing - Eko Profit S.A.), operating as a wind farm project developer.

## II. FINANCIAL RESULTS AND OPERATIONS

### 1. Financial results of the Group

#### 1.1. Profit and loss account of the Group

	thousand PLN	HI 2021	HI 2020	Change %
Interest and similar revenue		205,991	293,188	-29.7
Interest and similar expenses		- 28,471	- 91,947	-69.0
<b>Net interest income</b>		<b>177,520</b>	<b>201,241</b>	<b>-11.8</b>
Fee and commission revenue		90,490	81,262	11.4
Costs of fees and commissions		- 20,696	- 19,759	4.7
<b>Net fee and commission income</b>		<b>69,794</b>	<b>61,503</b>	<b>13.5</b>
Dividend revenue		6,324	5,560	13.7
Result on financial instruments measured at fair value through profit or loss (including receivables from customers)		30,952	34,699	-10.8
Result on investment securities		-	3,726	-100.0
Result on hedge accounting		228	28	714.3
Result on foreign exchange position		13,394	11,687	14.6
Other operating revenues		14,674	12,973	13.1
Other operating expenses		- 25,870	- 14,200	82.2
Result on legal risk of mortgage loans in foreign currencies		- 9,050	- 8,548	5.9
Result of impairment write-offs		- 63,149	- 63,025	0.2
G&A costs		- 197,060	- 186,952	5.4
<b>Gross profit</b>		<b>17,757</b>	<b>58,692</b>	<b>-69.7</b>
Tax burden		- 10,893	- 19,010	-42.7
<b>NET PROFIT</b>		<b>6,864</b>	<b>39,682</b>	<b>-82.7</b>

The BOŚ S.A. Group generated the net interest income of PLN 177.5 m, lower by PLN 23.7 m or 11.8% than in the corresponding period of 2020. The main impact on the reduction of the net interest income were the decisions of the Monetary Policy Council to cut the interest rates by a total of 140 bps in 2020.

Interest and similar revenues decreased by PLN 87.2 m or 29.7% in the first half of 2021 as compared to the corresponding period of 2020, mainly as a result of the decrease in the interest revenues from institutional customers by PLN 47.7 m or 27.6%, the decrease of interest from investment debt securities not held for trading by PLN 26.9 m or 45.6% and the decrease of interest revenues on receivables from individual customers by PLN 15.5 m or 25.6%, while the interest revenues on financial instruments held for trading grew by PLN 1.4 m or 691.2%, and the interest on receivables from banks and the Central Bank grew by PLN 1.4 m or 51.3%. The average basic interest rate of PLN loans granted by the Bank in the first half of 2021 (excluding impairment interest adjustment) was 3.01% as compared to 4.08% in the first half of 2020, and in foreign currencies - 2.25% as compared to 2.34% in the first half of 2020.

The interest expense decreased by PLN 63.5 m or 69.0% as compared to the first half of 2020. The biggest impact on the decrease had the lower costs of bank accounts and deposits of individual customers by PLN 42.1 m or 72.7%. The costs of bank accounts and deposits of institutional customers dropped by PLN 17.8 m or 95.9%. The costs of financial instruments - own issue debt securities - by PLN 2.6 m or 30.2%.

The decrease in the interest expenses on deposits was mainly due to lower interest rates. The average base interest rate on deposits acquired through the Bank's branch chain in the first half of 2021:

- in PLN was 0.22% as compared to 1.11% in the first half of 2020,

- in foreign currencies was 0.16% as compared to 0.34% in the first half of 2020.

	thousand PLN	H1 2021	H1 2020	Change %
<b>Interest and similar revenue on:</b>		<b>205,991</b>	<b>293,188</b>	<b>-29.7</b>
Receivables from banks and the Central Bank		2127	693	206.9
Receivables from institutional customers		125,375	173,105	-27.6
Receivables from individual customers		44,860	60,322	-25.6
Investment debt securities not held for trading		32,007	58,863	-45.6
Financial instruments held for trading		1,622	205	691.2
<b>Interest and similar expenses on:</b>		<b>28,471</b>	<b>91,947</b>	<b>-69.0</b>
Bank accounts and deposits from banks		513	218	135.3
Bank accounts and deposits of institutional customers		754	18,560	-95.9
Bank accounts and deposits of individual customers		15,828	57,897	-72.7
Credits and loans from customers		83	311	-73.3
Funds for loans (JESSICA)		28	149	-81.2
Financial instruments - own issue debt securities		5,987	8,576	-30.2
Hedging transactions		3,303	3,854	-14.3
Lease liabilities		1,953	1,847	5.7
Litigation and claims related to foreign currency mortgage loans.		-	201	x
Other		22	334	-93.4
<b>NET INTEREST INCOME</b>		<b>177,520</b>	<b>201,241</b>	<b>-11.8</b>

The Group's result on fees and commissions amounted to PLN 69.8 million, which means an increase by PLN 8.3 m or 13.5% year-on-year, driven by a higher (11.4%) growth rate of fee and commission income than the growth rate of the fee and commission expenses (4.7%).

	thousand PLN	H1 2021	H1 2020	Change %
<b>Fee and commission revenue</b>		<b>90,490</b>	<b>81,262</b>	<b>11.4</b>
Fees for brokerage services		50,626	44,688	13.3
Fees for servicing customer accounts, other clearing operations in domestic and foreign trade		17,986	16,122	11.6
Commissions on loans		18,423	17,435	5.7
Commissions on guarantees and letters of credit		3,144	2,766	13.7
Portfolio management and other management fees		310	250	24.0
Other charges		1	1	0.0
<b>Costs of fees and commissions</b>		<b>20,696</b>	<b>19,759</b>	<b>4.7</b>
Fees from brokerage activities, including:		15,269	14,866	2.7
<i>from fiduciary activities</i>		310	194	59.8
Payment card fees		3,688	3,445	7.1
Fees on current accounts		794	210	278.1
ATM service charges		613	612	0.2
Commission on receivables from customers		52	131	-60.3
Other charges		280	495	-43.4
<b>NET FEE AND COMMISSION INCOME</b>		<b>69,794</b>	<b>61,503</b>	<b>13.5</b>

The fee and commission revenues grew by PLN 9.2 m or 11.4%. The highest growth was recorded in revenues on brokerage services, which increased by PLN 5.9 m or 13.3%. There was an increase in the fee income on customer accounts, other domestic and international clearing transactions by PLN 1.9 m or 11.6%, the loan income by PLN 1.0 m or 5.7%, and the commission on guarantees and letters of credit by PLN 0.4 m or 13.7%.

The fee and commission revenues grew by PLN 0.9 m or 4.7%. The increase was mainly driven by higher brokerage fees by PLN 0.4m or 2.7%, and current account fees by PLN 0.6m or 278.1%, as well as payment card fees by PLN 0.2m or 7.1%, with commissions on receivables from clients dropping by PLN 0.1m or 60.3%.

The dividend income in 2020 amounted to PLN 6.3 m as compared to PLN 5.6 m in the same period of 2020. The main impact on this item was the dividend from Kemipol sp. z o.o., which amounted to PLN 6.3 m as compared to PLN 5.5 m in the first half of 2020.

The result on financial instruments valued at fair value through profit or loss was PLN 31.0m as compared to PLN 34.7m in the same period of 2020. The lower result was mainly due to the lower volatility on the financial markets, which decreased the number of transactions executed by customers of Dom Maklerski BOŚ.

The foreign exchange position result amounted to PLN 13.4 m as compared to PLN 11.7 m in the same period of last year.

Other operating expenses amounted to PLN 25.9 m in the first half of 2021 as compared to PLN 14.2 m in the corresponding period of the previous year, mainly due to a PLN 12.5 m adjustment of interest and commissions on loans from the previous years.

In the first half of 2021, the result of impairment write-offs amounted to PLN -63.1 m as compared to PLN -63.0 m in the corresponding period of 2020.



	thousand PLN	H1 2021	H1 2020	Change %
<b>Employee benefits</b>		92,112	82,253	12.0
<b>Administrative expenses, including:</b>		<b>77,500</b>	<b>76,668</b>	<b>1.1</b>
– material costs		51,528	47,507	8.5
– taxes and charges		3,323	2,211	50.3
– contribution and payments to the BGF		21,366	25,609	-16.6
– contribution and payments to the KNF		1,168	1,214	-3.8
– contribution to the Financial Ombudsman's operating costs		69	81	-14.8
– contribution to the Chamber of Brokerage Houses		46	46	0.0
<b>Depreciation and amortisation, including:</b>		<b>27,448</b>	<b>28,031</b>	<b>-2.1</b>
- fixed assets		6,861	6,976	-1.6
– intangible assets		13,480	12,587	7.1
– rights of use		7,107	8,468	-16.1
<b>TOTAL G&amp;A EXPENSES</b>		<b>197,060</b>	<b>186,952</b>	<b>5.4</b>

The Group's general administrative expenses were higher by PLN 10.1 m or 5.4% as compared to the first half of 2020, mainly due to the Group's employee benefits costs higher by PLN 9.9 m or 12.0%.

As at 30 June 2021, the Bank employed (in FTEs) 1,137 persons, as compared to 1,086 persons at the end of the first half of 2020, i.e. 4.7% more. Employment in the BOŚ S.A. Group increased by 4.9%, as compared to the end of the first half of 2020. The table below shows the FTEs in the Bank and its subsidiaries.

Employment in FTEs	30-06-2021	30-06-2020	Change %
Employment in BOŚ S.A.	1,137	1,086	4.7
Employment in subsidiaries	262	248	5.6
<b>EMPLOYMENT IN THE BOŚ S.A. GROUP</b>	<b>1,399</b>	<b>1,334</b>	<b>4.9</b>

The material costs in the first half of 2021 amounted to PLN 51.5 m vs. PLN 47.5 m, i.e. they were higher by PLN 4.0 m or 8.5%. The increase in costs was caused by the indexation of maintenance contracts, increase in legal fees and advisory costs related to the development of the Bank's new strategy.

Contributions to the BGF, including the contribution to the banks' forced restructuring fund, amounted to PLN 21.4m vs. PLN 25.6m in the first half of 2020.

### Efficiency and security of the Group's operations

	H1 2021	2020	Change in pps
Return on equity (ROE) <sup>1</sup>	0.7	-14.9	15.6
Return on assets (ROA) <sup>2</sup>	0.1	-1.6	1.7
Interest margin on total assets <sup>3</sup>	1.8	1.9	-0.1
Cost of risk <sup>4</sup>	-1.2	-1.2	0.0
Cost/income (C/I) <sup>5</sup> assuming an even distribution of the one-off BGF contribution costs over the year	65.9	62.0	3.9

1) the ratio of the net profit to the average capital stock,

2) the ratio of the net profit to the average balance of assets,

3) the ratio of the annualised net interest income to the average opening and closing balance of assets,

4) the ratio of the result of impairment write-offs with fair value measurement for the last 12 months to the average balance of credits and loans in that period,

5) the ratio of the sum of the general administrative expenses and usage costs to the net interest income, net fee and commission income, dividend income, net income on financial instruments at fair value through profit or loss excluding valuation of receivables, net income on investment securities, net income on hedge accounting, net foreign exchange income, and net income on other operations, excluding provisions for the legal risk of CHF loans.

The interest margin on total assets, calculated as the ratio of the net income to the average balance of assets, was 1.8% vs 1.9% for the 2020 period. The decrease was mainly due to the lower market interest rates.

The cost/income ratio was 65.9% as compared to 62.1% in 2020, mainly due to the decrease in the interest income and higher expenses.

## Capital ratios

	H1 2021	2020	Change in pps
Common Equity Tier 1 ratio	14.23	13.09	1.14
Common Equity Tier 1 ratio – excluding transitional provisions of IFRS 9	13.85	12.58	1.27
Tier 1 capital ratio	14.23	13.09	1.14
Tier 1 capital ratio – excluding transitional provisions of IFRS 9	13.85	12.58	1.27
Total capital ratio	15.89	14.86	1.03
Total capital ratio – excluding transitional provisions of IFRS 9	15.51	14.36	1.15

As at 31 December 2020, the minimum capital ratios recommended by the Commission are 8.87% for the Tier 1 capital ratio and 11.0% for the total capital ratio TCR.

The Group's level of capital adequacy both with and without the application of the transitional arrangements of IFRS 9 as at 30 June 2021 remained above the levels recommended by the Polish Financial Supervision Authority.

## 1.2. Balance sheet of the Group

The balance sheet total of the BOŚ Group as at 30 June 2021 amounted to PLN 19,675.0 m and was lower by 4.1% than at the end of 2020.

### The Group's assets

	thousand PLN	30-06-2021	31-12-2020	Change %
Cash in hand, cash at the Central Bank		224,494	266,552	-15.8
Receivables from other banks		187,170	155,616	20.3
Financial assets held for trading		144,854	113,134	28.0
- equity securities		44,611	14,032	217.9
- debt securities		-	805	x
- derivatives		100,243	98,297	2.0
Derivative hedging instruments		-	-	x
Investment securities		7,031,975	7,371,414	-4.6
Receivables from customers, including:		11,411,231	11,887,297	-4.0
- measured at amortised cost		11,391,392	11,861,783	-4.0
- measured at fair value through profit or loss		19,839	25,514	-22.2
Intangible assets		106,161	110,902	-4.3
Tangible fixed assets		81,630	84,651	-3.6
Right of use – leasing		79,164	67,796	16.8
Income tax assets:		132,548	129,136	2.6
Other assets		275,776	319,331	-13.6
<b>ASSETS</b>		<b>19,675,003</b>	<b>20,505,829</b>	<b>-4.1</b>

On 30 June 2021, receivables from customers accounted for the largest share of assets amounting to 58.0%. Their share in the assets did not change as compared to the end of last year. On the other hand, the share of investment securities decreased by 0.2 pps.

## Receivables from customers

	thousand PLN	30-06-2021	31-12-2020	Change %
<b>Valuation at amortised cost</b>		<b>11,360,647</b>	<b>11,827,480</b>	<b>-3.9</b>
<b>Receivables from individual customers</b>		<b>3,334,082</b>	<b>3,463,724</b>	<b>-3.7</b>
overdrafts		2,570	3,028	-15.1
cash loans		338,350	364,300	-7.1
housing loans		2,750,513	2,845,873	-3.4
other credits and loans		242,649	250,523	-3.1
<b>Receivables from institutional customers</b>		<b>8,026,565</b>	<b>8,363,756</b>	<b>-4.0</b>
working capital facilities		551,097	518,709	6.2
time credits and loans		6,698,359	7,237,795	-7.5
factoring receivables		440,038	331,450	32.8
lease receivables		131,066	105,756	23.9
debt purchased		132,958	96,123	38.3
commercial securities		73,047	73,923	x
<b>Valuation at fair value through profit or loss</b>		<b>19,839</b>	<b>25,514</b>	<b>-22.2</b>
<b>Receivables from individual customers</b>		<b>916</b>	<b>1,192</b>	<b>-23.2</b>
housing credits and loans		340	427	-20.4
other credits and loans		576	765	-24.7
<b>Receivables from institutional customers</b>		<b>18,923</b>	<b>24,322</b>	<b>-22.2</b>
working capital facilities		33	39	-15.4
time credits and loans		18,890	24,283	-22.2
<b>Total</b>		<b>11,380,486</b>	<b>11,852,994</b>	<b>-4.0</b>
Margin deposited		27,623	31,704	-12.9
Other receivables		3,122	2,599	x
<b>RECEIVABLES FROM CUSTOMERS</b>		<b>11,411,231</b>	<b>11,887,297</b>	<b>-4.0</b>

The Group's receivables from customers at the end of the first half of 2021 amounted to PLN 11,411.2 m as compared to PLN 11,887.3 m at the end of last year, representing a decrease of 4.0%.

The highest share in the total receivables, at 70.3%, was held by receivables from institutional customers measured at amortised cost. Their share did not change significantly as compared to the end of 2020. The receivables from institutional customers amounted to PLN 8,026.6 m.

	thousand PLN	30-06-2021	31-12-2020	Change %
<b>Credits and loans measured at amortised cost</b>		<b>2,750,513</b>	<b>2,845,873</b>	<b>-3.4</b>
- housing loans in PLN		1,392,020	1,367,273	1.8
- housing loans in CHF		782,523	860,971	-9.1
- housing loans in EUR		543,525	583,561	-6.9
- housing loans in USD		32,445	34,068	-4.8
<b>Credits and loans at fair value through profit or loss</b>		<b>340</b>	<b>427</b>	<b>-20.4</b>
- housing loans in PLN		340	427	-20.4
<b>TOTAL HOUSING LOANS</b>		<b>2,750,853</b>	<b>2,846,300</b>	<b>-3.4</b>

The share of receivables from individual customers measured at amortised cost in the total receivables increased by 0.1 pps to 29.2%. The amount of loans of individual customers measured at amortized cost amounted to PLN 3,334.1 m at the end of the first half of 2021. Their main item are housing loans, whose carrying value (measured at amortised cost) amounted to PLN 2,750.5m vs. PLN 2,845.9m as at the end of 2020. Foreign currency loans have a 49.4% share in the total housing loans (51.9% at the end of 2020). The share of housing loans in CHF in the total loan portfolio of the BOŚ S.A. Group (net) amounted to 6.9% and decreased by 0.4 pps in relation to the balance at the end of 2020.

## Quality of the Group's loan portfolio

	thousand PLN	30-06-2021	%	31-12-2020	%
<b>Receivables from customers measured at amortised cost</b>					
Receivables from customers without evidence of impairment, of which		10,776,168	86.4	10,983,679	84.3
<i>exposures for which no significant increase in credit risk has occurred since their initial recognition (Basket 1)</i>		8,274,068	66.4	8,582,957	65.9
<i>exposures for which a significant increase in risk has occurred since the initial recognition (Basket 2), including:</i>		2,502,100	20.1	2,400,722	18.4
<i>wind farms</i>		1,052,213	8.4	1,167,101	9.0
Receivables from customers showing evidence of impairment (Basket 3) but not impaired due to estimated cash flows, including:		19,722	0.2	337,120	2.6
<i>wind farms</i>		9,250	0.1	219,641	1.7
Receivables from customers showing evidence of impairment and impaired (Basket 3), including:		1,670,193	13.4	1,709,690	13.1
<i>wind farms</i>		6,148	0.0	13,434	0.1
<b>Total receivables from customers measured at amortised cost (gross)</b>		<b>12,466,083</b>	<b>100.0</b>	<b>13,030,489</b>	<b>100.0</b>
<b>Impairment write-offs to:</b>					
<i>receivables from customers - (Basket 1)</i>		- 77,253		- 84,772	
<i>receivables from customers - (Basket 2), including:</i>		- 141,674		- 126,123	
<i>wind farms</i>		- 27,873		- 30,947	
<i>receivables from customers - (Basket 3) not impaired, of which:</i>		- 464		- 10,245	
<i>wind farms</i>		- 367		- 8,734	
<i>receivables from customers - (Basket 3) impaired, of which:</i>		- 886,045		- 981,869	
<i>wind farms</i>		- 123		- 1,578	
<b>Total impairment write-offs</b>		<b>- 1,105,436</b>		<b>- 1,203,009</b>	
<b>Total receivables from customers measured at amortised cost (net)</b>		<b>11,360,647</b>	<b>91.1</b>	<b>11,827,480</b>	<b>90.8</b>
<b>Receivables from customers measured at fair value through profit or loss</b>					
Fair value, including:		19,839		25,514	
<i>wind farms</i>		-		-	
<b>Total receivables from customers measured at fair value through profit or loss</b>		<b>19,839</b>		<b>25,514</b>	
Margin deposited		27,623		31,704	
Other receivables		3,122		2,599	
<b>RECEIVABLES FROM CUSTOMERS</b>		<b>11,411,231</b>		<b>11,887,297</b>	

At the end of the first half of 2021, the balance of impairment write-offs amounted to PLN 1,105.4 m. The share of impaired receivables from customers in the total portfolio measured at amortised cost was 13.4% at 30 June 2021 as compared to 13.1% at the end of 2020.

### Credits and loans granted in the reporting period

In the first half of 2021, the Bank granted credits and loans (new sales) for the amount of PLN 1,854 m, i.e. 17.0% more than in the corresponding period of the previous year (according to the principal value at the time of granting the loan). The sales to institutional customers increased by 17.3% and the sales to individual customers increased by 14.5%.

	thousand PLN	H1 2021	H1 2020	Change %
Loans granted to institutional customers during the half-year period		1,655	1,410	17.3
Loans granted to individual customers during the half-year period		199	174	14.5
<b>LOANS GRANTED TO CUSTOMERS DURING THE HALF-YEAR PERIOD</b>		<b>1,854</b>	<b>1,584</b>	<b>17.0</b>

The sales of green loans in the first half of 2021 amounted to PLN 624.8 m and were lower by 20.1% than in the corresponding period of the previous year.

### The Group's equity and liabilities

	thousand PLN	30-06-2021	31-12-2020	Change %
Liabilities to the Central Bank and other banks		445,210	732,743	-39.2
Financial liabilities held for trading		64,325	103,316	-37.7
Derivative hedging instruments		17,274	24,497	-29.5
Liabilities to customers		16,050,198	16,560,715	-3.1
Subordinated liabilities		368,943	368,996	0.0
Provisions		421,595	418,534	0.7
Income tax liabilities:		2,213	1,103	100.6
Liabilities due to leasing		81,596	71,229	14.6
Other liabilities		318,683	311,526	2.3
Total equity		1,904,966	1,913,170	-0.4
<b>EQUITY AND LIABILITIES</b>		<b>19,675,003</b>	<b>20,505,829</b>	<b>-4.1</b>

As at the end of the first half of 2021, the liabilities to customers accounted for the highest share in the balance sheet total, at 81.6%. Their share increased by 0.8 pps as compared to 31 December 2020. The share of equity also increased by 0.4 pps, and the share of provisions by 0.1 pps. On the other hand, the liabilities to the Central Bank and other banks decreased by 1.3 pps, and liabilities held for trading decreased by 0.2 pps.

### Sources of financing for the Group's operations

The main source of financing for the Group's operations are the liabilities to customers, including:

- deposit funds acquired through the Bank's branch network,
- credits and loans received from international financial institutions,
- funds obtained from external donors for credit activity in the form of direct lines, interest rate subsidies or principal grants (NFOŚiGW, the Voivodeship Funds for Environmental Protection and Water Management, the European Fund for the Development of Polish Villages, JESSICA - Urban Development Fund).

	thousand PLN	30-06-2021	31-12-2020	Change %
Individual customers		8,799,388	9,380,943	-6.2
<i>current/settlement accounts</i>		4,957,080	5,206,561	-4.8
<i>term deposits</i>		3,842,308	4,174,382	-8.0
Institutional customers		6,449,325	6,305,999	2.3
<i>current/settlement accounts</i>		4,985,375	5,126,798	-2.8
<i>term deposits</i>		1,463,950	1,179,201	24.1
Other customers		79,153	72,182	9.7
Credits and loans received from International Financial Institutions		633,809	715,708	-11.4
Funds for loans		88,523	85,883	3.1
<b>LIABILITIES TO CUSTOMERS</b>		<b>16,050,198</b>	<b>16,560,715</b>	<b>-3.1</b>

The BOŚ S.A. Group's liabilities to customers as at 30 June 2021 amounted to PLN 16,050.2 m as compared to PLN 16,560.7 m on 31 December 2020.

The Group's liabilities to institutional customers increased by 143.3m or 2.3%, and the liabilities to individual customers decreased by PLN 581.6m or 6.2% as compared to the end of 2020.

### Information on incurred loans, borrowing agreements, sureties and guarantees not related to the operating activities of the Group

In the first half of 2021 the BOŚ Group did not take out any loans, borrowing agreements, sureties or guarantees not related to its operating activities.

## 1.3. Contingent assets and liabilities of the Group

	thousand PLN	30-06-2021	31-12-2020	Change %
<b>Contingent liabilities:</b>		<b>3,177,074</b>	<b>2,863,156</b>	<b>11.0</b>
Financial, including:		2,760,076	2,490,309	10.8
open lines of credit, including:		2,714,327	2,464,889	10.1
<i>cancellable</i>		2,301,129	2,130,346	8.0
<i>non-cancellable</i>		413,198	334,543	23.5
<i>open import letters of credit</i>		42,264	20,250	108.7
credit promises, including:		3,485	5,170	-32.6
<i>non-cancellable</i>		3,485	5,170	-32.6
Guarantees, including:		416,998	372,847	11.8
<i>sureties and guarantees of loan repayment</i>		12,739	12,739	0.0
<i>performance bonds</i>		404,259	360,108	12.3
<b>Contingent assets:</b>		<b>1,220,521</b>	<b>915,199</b>	<b>33.4</b>
Financial, including:		-	-	x
<i>open lines of credit</i>		-	-	x
Warranty		1,204,164	899,975	33.8
Other		16,357	15,224	7.4
<b>Total contingent assets and liabilities</b>		<b>4,397,595</b>	<b>3,778,355</b>	<b>16.4</b>

The Group's total contingent liabilities as at 31 December 2020 amounted to PLN 3,177.1 m, of which the Group's financial liabilities amounted to PLN 2,760.1 m. As at 30 June 2020, in the Group's total off-balance sheet liabilities, the balance of active guarantees totalled PLN 417.0 m or 13.1% of total off-balance sheet liabilities, of

which:

- all guarantees were issued by the Bank to residents,
- the highest guarantees were granted in the amounts of PLN 59.7 m and PLN 50 m,
- in terms of value (79.1%), the majority of active guarantees are national performance bonds (35.5%), other national guarantees (23.0%) and national payment guarantees (20.5%).

In terms of value, the principals of the guarantees were, as at 30 June 2021:

- 99.4% - non-financial entities,
- 0.5% - the government and self-government sector,
- 0.1% - retail customers.

As at 30 June 2021, as compared to 31 December 2020, the guarantee increased by PLN 44.2 m or 11.8%.

### **Information on sureties and guarantees granted and received in a given financial year**

In the first half of 2021, the Bank granted 81 guarantees and sureties for the total amount of PLN 107.1 m, of which 63 guarantees and sureties for the total amount of PLN 103.2 m were active as at 30 June 2021 (data for 2020: 124 guarantees and sureties granted for the total amount of PLN 186.7 m, of which 72 guarantees and sureties for the total amount of PLN 161.3 m were active as at 31 December 2020).

The active guarantees and sureties were granted with the expiry dates (by value):

- 93.3% - from 1 month to 3 years,
- 4.7% - guarantees with the expiry date from 3 to 5 years,
- 2.0% - guarantees with the expiry date over 5 years.

## **2. Difference between forecasts and realised results**

The BOŚ S.A. Capital Group did not publish financial result forecasts.

## **III. RISK MANAGEMENT IN THE GROUP**

### **1. Credit risk**

The primary objective in the area of credit risk management in the first half of 2021, in particular in the area of asset quality management, was to improve the quality and structure of the loan portfolio.

Actions aimed at improving the quality of the credit portfolio were focused on pursuing the policy of moderate risk appetite, allowing the cost of risk to oscillate around the sector average.

With regard to improving the credit portfolio structure, the Bank continued the actions undertaken in the previous periods aimed at reducing the unit exposure and concentration risk.

In June 2021, the Bank adopted a development strategy for 2021-2023 (Strategy of Bank Ochrony Środowiska for 2021-2023). In the corporate banking area, the Bank will focus on serving medium-sized and large companies and local governments, offering credit products that support the green transformation. The offer for retail customers also remains focused on financing pro-environmental investments.

The Bank financed transactions that were in compliance with the generally applicable regulations.

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

- that may bring the Bank into disrepute,
- that may cause the risk exposure of one entity or entities having capital or organisational links to exceed the level specified by external requirements,
- implemented in violation of the Environmental Protection Law or which may constitute a potential source of environmental degradation,
- with customers who do not have reliable, steady and stable incomes.

The Bank conditioned taking up the financing on:

- the borrower's creditworthiness to repay the requested debt at the dates agreed with the Bank,
- presenting collateral for repayment in a form and of a value acceptable to the Bank, if internal regulations so require,
- meeting other criteria conditioning the taking up of the financing, in particular, the results of the customer's cooperation with the Bank to date and the customer's credit history in the banking sector.

The customers and transactions were subject to a comprehensive credit risk assessment taking into account the economic impact of the COVID-19 pandemic.

The Bank assessed the credit risk using the rating and scoring models, differentiated depending on the customer and transaction type. The models were built, developed, monitored and supervised in the Risk Area taking into account the internal and external requirements in this respect.

The credit risk assessment model for natural persons seeking non-business financing included:

- a quantitative analysis - to determine the amount and stability of sources of repayment of the credit, and
- a qualitative analysis - consisting in the assessment of the customer's features which have a significant impact on their readiness to repay the credit commitment contracted within the deadlines specified in the agreement, including scoring and customer behaviour assessment based on information from Biuro Informacji Kredytowej S.A.

In the assessment process, the provisions resulting from Recommendations T and S of the KNF were taken into account, in particular with regard to the introduction of adequate levels of Dtl/DStl and LtV ratios

In the process of customer evaluation, the Bank used information obtained from various sources, including information obtained from external databases.

The risk assessment model for customers seeking financing for business or statutory purposes (municipal companies) took into account two areas: customer assessment and transaction assessment (rating).

The customer assessment was based on quantitative and qualitative elements. The quantitative assessment concerned the basic areas of the customer's business activity from the point of view of generating the financial result and maintaining liquidity. The qualitative assessment included, in particular, the assessment of: development plans, experience and skills of managers, quality of relations with the external environment, including the Bank.

The local government risk assessment model included a customer analysis based on an assessment of the key budget indicators, debt ratios and a transaction analysis based on an assessment of planned debt ratios, collateral quality and transaction duration.

In the case of financing for a customer operating within a group of affiliated entities, the Bank assessed credit risk taking into account the impact of the situation of the related parties.

The evaluation of transactions was based in particular on the assessment of the purpose of financing, the length of the loan period and the value of the collateral. The Bank established a financing structure so as to ensure risk



sharing between the borrower and the Bank, mainly through involvement of the borrower's own funds appropriate to the risk scale.

In case of exposures significant due to the risk level or the transaction amount, the risk assessment was verified by a credit risk expert - an employee specialised in risk identification and selection of adequate forms of risk mitigation, independent from the sales department.

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

In the event of identifying situations that may pose a threat to timely repayment, the Bank undertook reminder and restructuring actions, using for this purpose, among others, the solutions implemented in the early warning system (EWS).

On a monthly basis, the Bank analysed all credit exposures in order to:

- identify credit exposures threatened with impairment,
- measure impairment,
- create write-downs or provisions.

The Bank used the individualised and group methods to measure the impairment of credit exposures and to create write-downs or provisions. Due to the outbreak of the COVID-19 pandemic and the uncertainty related to its potential impact on the economic situation and the loan portfolio, the Bank decided to introduce, in the process of estimating write-downs with the group approach, a temporary expert adjustment reflecting the sensitivity of the particular industries to the crisis resulting from COVID-19 and the change by taking into account a higher weighting of the pessimistic scenario for the macroeconomic situation.

The credit decision-making powers functioning at the Bank depended on:

- the type and amount of the transaction,
- the total credit exposure of the Bank towards the group of affiliated entities to which the customer belongs,
- the level of risk generated by the customer and the transaction,
- the application of a derogation affecting the credit risk.

The Bank had a credit decision-making system in place, based on the rule that the higher the transaction risk level resulting from its complexity, the exposure amount or the customer's economic and financial situation, the higher the decision-making level authorised to make decisions. The decision-making levels with the highest authority are the Head Office Credit Committee and the Bank's Management Board. In case of applying a derogation affecting the credit risk, the decision is taken by a decision-making body with higher competence. When taking credit decisions on transactions concluded with members of the Bank's bodies, persons holding managerial positions at the Bank, or entities affiliated with them by capital or management, the Bank took into account the requirements of the Banking Law act.

The Bank accepted material and personal collateral to secure its receivables.

The Bank had a preference for secured transactions, provided that a maximum level of unsecured transactions in the retail segment was set along with the criteria allowing for unsecured transactions, taking into account the product specifics, the customer segment, the impact of such transactions on the Bank's results and the amount of the potential loss.

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

When establishing the value of the collateral, the Bank followed the prudent valuation principle.

When choosing the form of the collateral, the Bank took into account:

- the adequate protection of the Banks's interest,

- the amount of costs related to the establishment of the collateral in question,
- the possibility of quick liquidation of a given collateral.

The Bank had the policy for the management of unmanaged exposures in place, which included a strategy to enable reducing unmanaged exposures over time, and an operational plan supporting the implementation of strategic actions.

In order to mitigate the negative impact of the economic consequences of the COVID-19 pandemic on the quality of the credit portfolio, the Bank applied specific financing and customer monitoring principles, being guided in the adopted solutions by the Package of Supervisory Impulses for Security and Development prepared by the KNF Office, adapting its operating procedures to the current market and epidemic situation. Among other things, the Bank allowed for providing financing based on the prospective creditworthiness and simplified liquidity projections.

At the same time, the Bank was particularly attentive to financing in industries that, in its opinion, are still the most vulnerable to the negative effects of the pandemic, including the financing of exposures secured by income-producing commercial real estate.

The Bank identified, measured and monitored the risk of exposure concentration at the level of:

- a single customer and transaction,
- the loan portfolio.

At the customer and transaction level, the risk of exposure concentration was managed by observing the supervisory exposure limits, in particular those resulting from Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 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.

In connection with the entry into force, on 28 June 2021, of Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending the aforementioned Regulation 575/2013, the Bank introduced a new definition of large exposure and adjusted the level of maximum exposure to a customer or group of related customers to the Tier 1 capital.

At the credit portfolio level, the exposure concentration was managed by observing the internal limits or warning values approved by the Bank's Management Board or Supervisory Board in the case of limits through which the Bank determines the acceptable level of credit risk appetite.

In particular, the Bank applied the following limits:

- geographical - engagement with other countries,
- related to product parameters - e.g. maximum LTV,
- related to the portfolio of mortgage-backed loans and real estate-financing loans - resulting from the KNF Recommendations,
- related to involvement in selected sectors of economic activity,
- regarding the share of foreign currency loans in the Bank's loan portfolio,
- regarding the total exposure to entities/groups of related entities to which the Bank's exposure exceeds 10% of the Bank's recognised capital,
- regarding the total exposure to entities/groups of related entities depending on the rating of the entity/group of related entities,
- the total exposure to subsidiaries of the Bank,
- the exposure limit for credit transactions for which specific funding rules were applied in connection with the COVID-19 pandemic outbreak.

In the concentration risk management process the Bank applied a warning level system, which applies to all internal limits in the credit risk area. The basic assumption of the system is based on distinguishing three levels of limit utilisation and gradual implementation of measures mitigating the risk of exceeding the limit depending on the level of utilisation.

The limit utilisation level was monitored periodically and reported to the Bank's authorities in the manner resulting from the Bank's internal regulations.

As required under Recommendations T and S issued by the Polish Financial Supervision Authority (KNF) and the Resolution on the requirements for identifying, monitoring and controlling concentration of exposures, including large exposures, the Bank performed credit risk stress tests on the credit portfolio of retail and corporate customers, including the largest exposures.

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

In its lending activity, the Bank observed the supervisory requirements, the rules resulting from good banking practices and the internal procedures.

## 2. Financial risk

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

- 1) the liquidity risk,
  - 2) the market risk, including:
    - the interest rate risk (in the banking book and in the trading book),
    - the currency risk (primarily in the trading book, the currency risk from the banking book is transferred to the trading book),
- other risks (general and specific equity instrument price risk, commodity price risk and position risk in collective investment undertakings).

The liquidity risk and the interest rate risk occur primarily in the Bank, while the currency risk - in DM BOŚ S.A. (in the trading and in the non-trading book) and in the Bank (in the trading book, the currency risk from the banking book is transferred to the trading book). In DM BOŚ S.A., there is also the capital instrument price risk, the commodity price risk and the position risk in collective investment undertakings.

The basic rules of risk management in the Bank and in the BOŚ Group with respect to the financial risk are defined in the Bank Risk Management Strategy. This strategy is an integral part of the binding Strategy of the Bank.

The risk management system of the BOŚ Group includes examination of particular types of risk connected with the activity of the Bank and of the Companies belonging to the Group. As the parent entity the Bank exercises supervision over the Group's risk management system. 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 risk management at the Bank is carried out on the basis of a risk appetite and tolerance set by the Supervisory Board, determined with a set of internal limits. The Bank has policies for managing the liquidity risk, the interest rate risk in the banking book and the market risk in the trading book, which define, among others, the maximum levels of the financial risk consistent with the risk appetite adopted by the Supervisory Board. Based on these, an early warning system has been established which focuses on identifying, measuring, monitoring, controlling and reporting risks.

The banking book transactions constitute the core business of the Bank, i.e. result from commercial activities, including: gaining financing sources and effective management of liquidity. The banking book includes items not included in the trading book, in particular:

- loans granted, guarantees, borrowings, deposits, and accepted deposits,
- transactions hedging the liquidity and the interest rate risk of transactions included in the banking book,
- the purchase of securities for a purpose other than trading.

In line with the BOŚ Group's strategy, activities in the trading book complement those in the banking book. The trading book includes transactions made for own account with a trading purpose, i.e. the intention to obtain a financial benefit in the short term from the actual or expected differences between market purchase and sales prices or from other price or price parameter deviations, in particular of interest rates and exchange rates. The sale of the trading book transactions is not aimed at maintaining the liquidity. The task of the trading book is to provide customers with the highest quality of service. In order to achieve this, the Bank and DM BOŚ S.A. Keep open positions within the binding risk limits.

The goal of risk management at the BOŚ Group is to maintain individual types of risk at an assumed tolerance and appetite level in order to protect the value of shareholders' capital, maintain the safety of customer' deposits and achieve appropriate efficiency of the BOŚ Group's operations, including ensuring the ability to adapt the Group's operations to changing market conditions, competence and commitment of the management and staff, and quality of the management information systems.

In the first half of 2021, the BOŚ Group regularly monitored the economic and market situation related to the COVID-19 pandemic and analysed its impact on the financial risks, including the market risk and the liquidity risk. Although the levels of individual risks increased compared to the pre-pandemic period, they generally remained within the Group's accepted limits.

In the first half of 2021, the main objectives, principles and organisation of the financial risk management process in the Capital Group did not change. The level and profile of financial risk are monitored on a regular basis in the Bank in the Financial Risk Department (second line department) and in DM BOŚ S.A.'s Risk Management Department, and reported to: the Bank's Supervisory Board, the Supervisory Board of DM BOŚ S.A., the Risk Committee (of the Supervisory Board), the Bank's Management Board, the Management Board of DM BOŚ S.A., the Assets and Liabilities Management Committee (ZAP Committee) and the ZAP Liquidity and Market Risk Committee (ZAP PiRR).

## 2.1. Liquidity risk

The goal of the BOŚ Group with respect to liquidity management is to maintain the ability to finance assets and settle liabilities on time, and to maintain a balanced structure of assets and liabilities to ensure a safe liquidity profile in particular time bands, broken down into liquidity in PLN and in major foreign currencies, and above all - for the total liquidity position. The liquidity risk is primarily generated at the Bank.

The liquidity risk management strategy and processes are adjusted to the Bank's business profile and scale. The liquidity risk management strategy is defined in the Bank's Liquidity Strategy approved by the Supervisory Board. The strategy determines the Bank's appetite for that risk, sets the main directions and quantitative targets for selected volumes and is an integral element of the Bank's Framework Strategy. The liquidity risk tolerance, adjusted to the adopted appetite, was defined in the Liquidity Management Policy approved by the Supervisory Board through the system of internal limits and warning values applied at the Bank.

The structure and organisation of the liquidity risk management functions covers all levels of the Bank's organisational structure and operates along three lines of defence. The Management Board and the Assets and Liabilities Management Committee play a special role in the liquidity risk management process.

The Bank's liquidity is considered over the following time horizon:

- intraday liquidity - during the day;

- current liquidity - over up to 7 days;
- short-term liquidity - over up to 1 month;
- medium-term liquidity - from 1 month to 12 months;
- long-term liquidity - over 12 months.

The Bank uses the following measures and tools to measure its intraday, current and short-term liquidity risk:

- the intraday liquidity level - which reflects the level of funds needed to be maintained at the account with the NBP to meet the Bank's liabilities during the day, under normal and stressed conditions;
- the liquid assets (liquidity surplus) - representing a buffer for expected and unexpected outflows over 30 days;
- the liquidity reserve - which measures the level of liquid assets less expected and unexpected outflows, determined within 30 days, taking into account a concentration margin;
- the assessment of the deposit base stability;
- the short-term liquidity gap (for PLN, EUR, CHF and USD) - showing the level of misalignment in funding structures in foreign currencies; the gap primarily comprises cash flows from transactions on the wholesale market and from derivative transactions;
- the stress tests (which, among others, enable the Bank to verify the ability to maintain liquidity in a defined time horizon in particular scenarios).

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

- the contractual and actual liquidity gap (which is supplemented by regular analyses of: the stability of the deposit base, the concentration of the deposit base, the size of loan prepayments and the level of deposit breakage);
- the ratios of coverage of long-term assets with long-term liabilities;
- the ratio of coverage of loans used to finance customers' long-term needs by the most stable sources of finance;
- the forecast of LCR, liquid assets and long-term liquidity measures (NSFR, among others).

In order to assess the effectiveness of the liquidity risk management process, for most of the measures above limits or alert values are set within the internal liquidity risk limits with a hierarchical structure (i.e. they are set at the level of the Supervisory Board, the Bank's Management Board and the Assets and Liabilities Committee). The existing limits and warning values are reviewed regularly to allow for effective monitoring of the liquidity. The limits and warning values define the framework for the Bank's liquidity tolerance and are consistent with the Bank's appetite for this risk. The development of an appropriate liquidity risk profile is supported by taking into account the cost of liquidity under the transfer pricing system applied by the Bank.

The measures and tools used by the Bank are reviewed and updated regularly, to ensure a better representation of the liquidity profile. The process of liquidity and liquidity risk monitoring at the Bank is supported by dedicated IT systems (in particular with regard to generating the contractual and realised liquidity gap, reporting on supervisory liquidity measures and internal limits and preparing mandatory reporting). At least once a year, the Bank prepares a review of the internal liquidity adequacy assessment process (ILAAP), in accordance with the EBA/GL/2016/10 Guideline on ICAAP and ILAAP information collected for the supervisory review and evaluation process (SREP). The review is subject to the ZAP Committee's opinion and approval by the Bank's Management Board and Supervisory Board. The Bank's ILAAP review as at 31 December 2020 showed that the process complies 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. The results of the liquidity risk analysis, the utilisation rate of supervisory standards and internal limits, and the stress test results are presented in the reports prepared for the Asset and Liability Committee for Liquidity and Market Risk (in weekly cycles), the Bank's Management Board and the Asset and Liability Committee (in monthly cycles) and for the Bank's Supervisory Board and the Risk Committee of the Supervisory Board (in quarterly cycles). The reports are a part of the Management Information System (MIS), the purpose of which is to support the Bank's management, streamline the performance of its tasks and ensure the security and stability of its operations.

## Overall liquidity risk profile

The basic source of funding for the Bank is still a systematically built and diversified deposit base with a considerable share of stable deposits from individual customers (supplemented by deposits from corporate customers and the public sector), which is supplemented, among others, by loans received from international financial institutions (which, together with long-term bilateral interest rate swap agreements secured by debt securities and FX swap transactions, constitute a source of liquidity funding in foreign currencies). The Bank monitors the deposit base concentration risk on an on-going basis. The internal liquidity measures include an additional surcharge on stable funds due to concentration, calculated on the basis of deposit balances for large deposits and deposits of large customers (classified in accordance with the definitions applied by the Bank).

The Bank's liquid assets (liquidity surplus) are primarily maintained in the form of highly liquid NBP bills (as on 30 June 2021 accounting for 50% of the portfolio of liquid unencumbered securities) and bonds representing receivables from or guaranteed by the State Treasury (as on 30 June 2021 - 50%), characterised by low specific risk. The portfolio of these securities is supplemented with cash and funds kept in the NBP (above the declared obligatory reserve level) and on nostro accounts in other banks. Liquid assets as at 30 June 2021 amounted to PLN 5,653 million. Liquid assets constitute a buffer to secure liquidity in potential crisis situations, i.e. they can be pledged, liquidated under repo transactions or sold at any time without a material loss in value. The ability to sell liquid assets (the product liquidity risk) is monitored on a regular basis. These analyses mainly take into account the issue size, the market turnover and the purchase/sale price volatility.

Under the recommendations of the Polish Financial Supervision Authority (KNF) and the National Bank of Poland (NBP), the Bank may use additional financing sources in the form of the technical loan and the lombard loan at the NBP, and may request refinancing from the NBP.

The Bank determines the internal capital for the liquidity risk, which is considered a permanently significant risk, in accordance with the binding internal capital estimation process. This capital is estimated based on the cost associated with restoring the supervisory and internal liquidity measures and limits under constructed stress test scenarios.

## **Liquidity risk measures**

The Bank determines the supervisory liquidity measures in accordance with the following regulations: Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012 taking into account the guidelines of Commission Delegated Regulation EU 2015/61 of 10 October 2014 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council as regards the requirement to cover net outflows for credit institutions and the delegated and implementing regulations relating thereto in respect of liquidity and Resolution No. 386/2008 of the Polish Financial Supervision Authority of 17 December 2008 on the setting of liquidity standards binding on banks.

The current short-term liquidity standards include the requirement to cover net outflows - LCR (the ratio of liquid assets to net outflows, i.e. the difference between outflows and inflows, over a stress period of 30 calendar days). The LCR is calculated for all currencies in total (converted to PLN) and separately for significant currencies: PLN and EUR. As far as the EUR ratio is concerned, the Bank identifies the currency mismatch related to the method of financing long-term loans granted in this currency.

Long-term standards include the following coefficients: M3 (ratio of coverage of illiquid assets with own funds) and M4 (ratio of coverage of illiquid assets and assets with limited liquidity with own funds and stable external funds). The Bank determines the Net Stable Funding Ratio (NSFR) and reports it to the Polish Financial Supervision Authority (KNF) and the National Bank of Poland, and has an internal warning value for this indicator at the level of the target supervisory limit, i.e. 100%, as at 30 June 2021 the value of the ratio was 130%. In addition, in accordance with Commission Implementing Regulation (EU) 2016/313 of 1 March 2016 amending Implementing Regulation (EU) No. 680/2014 as regards additional monitoring indicators for liquidity reporting to the National Bank of Poland, as part of its mandatory reporting, the Bank prepares and sends ALMM reports.

Pursuant to Resolution No. 386/2008 of the Polish Financial Supervision Authority, the Bank also performs an in-depth analysis of the long-term liquidity. The results of the analyses are used to manage the Bank's liquidity. At the same time, the process of developing the Bank's short- and long-term financial plans includes the

liquidity assessment, so as to ensure an adequate financing structure and compliance with the supervisory liquidity measures.

In the first half of 2021 (as in 2020), the supervisory liquidity measures, i.e. LCR and M3-M4 were determined on a daily basis (i.e. on each business day) and remained at safe levels, well above the regulatory levels. As at 30 June 2021, these standards were as follows:

Measure	30-06-2021	31-12-2020
LCR	161%	158%
M3	56.54	62.01
M4	1.41	1.43

The Bank has the Emergency Liquidity Action Plan approved by the Management Board, which sets out the potential sources of deterioration/loss of liquidity, the rules of conduct and the powers in emergency situations. It is intended to estimate the survival horizon and the feasibility and costs of restoring the state of stable liquidity. This plan, in addition to a scenario analysis of liquidity in contingencies (the assumptions of which are consistent with the stress tests conducted), 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 cover three types of scenarios:

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

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

As part of the analyses, the Bank also carries out a sensitivity analysis for individual factors generating the liquidity risk and the so-called reverse tests. The action plan to maintain liquidity in emergency situations is regularly reviewed and updated to ensure that the Bank is operationally prepared to launch potential actions that might be taken in a liquidity risk situation. The contingency liquidity scenario analysis is developed on a semi-annual basis and the stress tests are developed on a monthly basis. The assumptions made in the stress tests are reviewed on a regular basis, in line with the conclusions arising from the scenario analysis of liquidity in emergency situations. The assumptions of particular scenarios of the stress tests conducted reflect the expected negative effects caused by the COVID-19 epidemic, such as, among others: an increased outflow of cash and deposits, an increase in term deposit withdrawals and an increase in the EUR/PLN and CHF/PLN exchange rates. The conclusions from the tests are taken into account in the ongoing management of liquidity and liquidity risk and are the basis for building the structure of assets and liabilities.

In the analyses, the Bank also takes into account the possibility of adverse changes in foreign exchange rates, especially CHF and EUR, which potentially may increase its liquidity needs.

On the interbank market, the Bank enters into transactions with financial counterparties based on agreements signed on templates provided by ISDA and GMRA or their equivalents prepared by the Polish Banks Association.

Some of the agreements include provisions relating to the downgrading of the rating held or discontinuance of the rating by one of the globally recognised rating agencies. These provisions allow the counterparty to invoke the right of early termination. Another clause with a similar effect is the reduction of the number of shares held by the NFOŚiGW below 51% or below their value in relation to the shares, which will deprive the Fund of the right to 51% of the votes at the General Meeting of Shareholders.

The stress tests performed in the first half of 2021, similarly as in 2020, show that the Bank has a stable liquidity position and its liquid assets (liquidity surplus) allow it to withstand the assumed stress scenarios, under which the Bank assumes its survival within a specified time horizon.

In the first half of 2021, as in 2020, the liquidity situation of the BOŚ S.A. Group was regularly monitored and remained at a safe level.

### **The impact of the COVID-19 pandemic on the Bank's liquidity**

In the context of the high uncertainty caused by the COVID-19 pandemic, the Bank monitors the current economic situation and analyses its potential impact on the Bank's and its customers' situation, in particular the liquidity situation. Information on the sector situation and customer behaviour are also analysed: monitoring of the outflow of cash and deposits, an increase in the EUR/PLN and CHF/PLN exchange rates and their effect on specific areas of the Bank's business. The assumptions of the Bank's stress tests were reviewed to include the pandemic risk factors.

No material adverse impact of the pandemic events on the Bank's liquidity was observed in the first half of 2021.

In the current situation, the Bank monitors the balances of deposits and loans, especially in the context of interest rate changes and credit facilities introduced under the anti-crisis shield. The Bank takes measures aimed at correlating its demand for credit capital with the funding it obtains, while ensuring a safe level of the liquidity surplus.

## **2.2. Interest rate risk**

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

### **Interest rate risk in the banking book**

The main purpose of managing the interest rate risk in the banking book is to strive to stabilise and optimise the net interest income (NII), while limiting the negative impact of changes in the market interest rates on the economic value of equity (EVE).

To this end, the Bank uses two tools: its investment portfolio and derivative transactions concluded under hedge accounting. The investment portfolio built in the banking book should, among others, contribute to securing the interest income generated on the Bank's equity, as well as a stable portion of interest-rate insensitive deposits on current accounts, on the other hand, this portfolio causes a volatility in the revaluation reserve.

The Bank applies fair value hedge accounting. Its purpose is to hedge the fair value of fixed-rate State Treasury bonds that are part of the bond portfolio in the HtC&S model and constitute the Bank's liquidity buffer. The concluded IRS hedging transactions limit the capital fluctuations related to the interest rate changes.

The process of monitoring the interest rate risk in the banking book is supported by a dedicated IT system by means of which the Bank, in particular, determines/carries out:

- the repricing gap presenting the values of assets, liabilities and balance-sheet items sensitive to interest rate changes in the maturity or repricing periods,
- the simulation of the net interest income - a dynamic analysis reflecting the projected NII in given time frames, based on the adopted scenarios of the Bank's development, as well as assumptions concerning the development of the market factors,
- the net present value (NPV) simulation, presenting discounted values, according to given market parameters, of all cash flows; the EVE measure is determined based on the NPV analyses,



- the price shocks under the basis risk analysis, the purpose of which is to estimate the impact on the net interest income of a diversified change in interest rates of products whose interest rates are based on different base rates,
- the yield curve risk analysis, which is aimed at estimating the impact on the economic value of equity of uneven changes in the shape of the yield curve,
- the customer option risk analysis, whose objective is to assess the impact of the customer options embedded in interest bearing products on the Bank's financial result,
- the stress tests, including reverse tests and the Supervisory Outlier Test - the aim is to determine how extreme changes in market factors affect the net interest income and the economic value of equity,
- the level of the internal capital for the interest rate risk in the banking book.

## Measures of the 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 the net interest income to the interest rate changes by +/- 100 bps (NII) and sensitivity of the economic value of equity to the interest rate changes by +/- 200 bps (EVE). These measures are the basis to determine the Bank's appetite for the interest rate risk in the banking book approved by the Supervisory Board, and the system of limits and warning values to control that risk at the Bank. The 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 agreements signed with counterparties. For current products for which the customer has the freedom to determine, among other things, the repayment schedule or disposition of funds, the Bank builds the so-called replication portfolios, which reflect the economic timing of capital flows. In the replication portfolios used, the average maturity of deposits with undetermined maturity is 6 months, while the maximum maturity is 12 months. In addition, the Bank takes into account the customers' behavioural patterns, such as early loan repayment levels, or term deposit withdrawal levels, the estimation of which is defined in the Bank's internal regulations. The assumptions adopted are in line with Guideline EBA/GL/2018/02 on the management of interest rate risk from activities included in the banking book.

The following table shows a comparison of the NII and EVE measures between 30 June 2021 and 31 December 2020:

	ΔNII		ΔEVE	
	-100 pbs	+100 pbs	-200 pbs	+200 pbs
30-06-2021	-96,843	38,667	100,963	-114,301
31-12-2020	-95,408	39,378	67,413	-98,089
<b>Change</b>	<b>-1,435</b>	<b>-711</b>	<b>33,550</b>	<b>-16,212</b>

In the first half of 2021, both the NII and the EVE measures were within the warning limits/values consistent with the risk appetite adopted by the Supervisory Board. Changes in the values of the above-mentioned measures are characterised by a certain regularity, which is associated with regular approximation of the repricing date for floating-rate positions and maturity of fixed-rate positions. The increased sensitivity of the net interest income in 2020 and 2021 was caused by the 3-fold reduction of the interest rates by the Monetary Policy Council to counteract the negative economic consequences of the COVID-19 pandemic, resulting in the Bank's decision to reduce the interest rates on term deposits and savings accounts. The asymmetrical impact of interest rate changes on NII in scenarios of a decrease and increase in interest rates results from the interest rate characteristics of specific items sensitive to interest rate changes, including, among others, limiting the decrease in interest rates on specific sources of financing to 0%, under the conditions of the examined change in market interest rates (i.e. by -100 bps). In connection with the reductions in interest rates on term deposits and savings accounts and higher utilisation of the NII limit, the impact of changes in the environment, the structure of the Bank's balance sheet and the offer to customers on the measure of the NII sensitivity is monitored on an ongoing basis.

In accordance with Guideline EBA/GL/2018/02 on the management of interest rate risk on activities included in the banking book, the Bank is obliged to carry out the Supervisory Outlier Test (SOT).

**The results of the Supervisory Outlier Test (SOT) for the 6 standard shock scenarios for the interest rate risk, as defined in the Guideline, are presented in the table below as at 30 June 2021 and 31 December 2020, with the change:**

	ΔEVE in a given SOT scenario					
	parallel increase in shock	parallel decrease in shock	steepening of the curve	flattening of the curve	increase in shock for short-term rates	decrease in shock for short-term rates
30-06-2021	-97,630	30,725	-2,875	-63,834	-94,533	3,606
31-12-2020	-102,510	35,478	-2,987	-64,288	-94,813	3,316
<b>Change</b>	<b>4,880</b>	<b>-4,753</b>	<b>112</b>	<b>454</b>	<b>280</b>	<b>290</b>

The results of the SOT analysis indicate that the Bank is most vulnerable to a decrease in the economic value of equity (EVE) in the Parallel Up scenario. The level of sensitivity of the economic value of equity is clearly below the supervisory warning values, indicating a moderate exposure to the interest rate risk.

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

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

In addition, reverse tests are carried out at the Bank:

- for the EVE measure - tests with regard to the impact of changes in the market factors, the purpose of which is to show when the sensitivity of the EVE falls below 20% of own funds,
- for the NII measure -
  - tests to show when the projected interest income falls below zero,
  - tests to identify the areas of vulnerability arising from hedging and risk management strategies and customer behavioural responses.

The results of the stress test analysis as at 30 June 2021 show that under extremely adverse market conditions and the Bank's increased exposure to interest rate sensitive instruments, the business risk in the banking book is maintained at a safe level.

Due to 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; as part of the ICAAP process, the Bank estimates the internal capital for this risk Pursuant to the supervisory and internal regulations, the internal capital for interest rate risk in the

banking book refers to both potential changes in the economic value of equity and the net interest income due to an adverse change in the 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 BGK bonds (issued in favour of the COVID-19 Prevention Fund, guaranteed by the State Treasury) with the nominal value of PLN 150 million, with a fixed interest rate in the HtC&S business model, from July 2020 the Bank has applied the option of measurement at fair value through profit or loss (FVPL option). The IRS hedging transactions entered into to this end enable the Bank to change interest on the bonds purchased, accrued at a fixed interest rate, into interest accrued according to the WIBOR 6M formula plus margin, which secures the Bank against a negative result in the case of an increase in the market interest rates.

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

### Interest rate risk in the trading book

The objective of interest rate risk management in the trading book is to achieve a financial result in this area as provided for in the financial plan, at an acceptable level of exposure of the Bank to this risk and to minimise its negative effects on account of interest rate sensitive instruments held in the trading book.

### Measures of the interest rate risk in the trading book

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

1. the VaR model determined for the 99% confidence level based on the daily interest rate volatility for 250 business days preceding the analysis date,
2. BPV (i.e. sensitivity of securities and derivatives generating the interest rate risk to a 1 bps change in the interest rates),
3. the limit system,
4. stress tests.

There were no material changes to the interest rate risk measurement techniques in the trading book in the first half of 2020.

The interest rate VaR in the trading book and the impact of the stress test scenario - a parallel shift of the IRS and BOND yield curves by  $\pm 200$  bps - on the Bank's result in six-month periods, was as follows (the maximum, minimum and average value and the value as of the reporting date are given):

	10-day VaR				Stress tests $\pm 200$ bps	
	average	max.	min.	as at	as at	
01-01-2021 – 30-06-2021	164	413	49	64	-2,609	
01-01-2020 – 30-06-2020	648	1511	161	526	-3,062	

In order to verify the value-at-risk model, once a month the Bank carries out a back-testing analysis calculated by comparing the maximum losses determined from the VaR model with the actual profits and losses and theoretical changes in the result caused by the revaluation of items. The back-testing results are presented in monthly cycles in the management reports.

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

1. a 10-day VaR limit,
2. the BPV limit for instruments generating the interest rate risk in the trading book, applicable both during the day and at the end of the day, separately for positions in debt securities and for IRS, and jointly for these instruments,
3. the maximum, two-day and carry-forward monthly loss limits on assets in the trading portfolio.

The calculation and monitoring of the utilisation level of the individual limits is carried out as at each business day, and in relation to BPV limits - also during the day, and reported to the management on a regular basis.

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

The trading book examines the impact of extremely adverse changes in the level of the market interest rates on the Bank's results and the volatility of the 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 accounted for the interest rate volatility caused by the COVID-19 pandemic.

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

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

The stress test scenarios are also run assuming a change in the market liquidity and a lack of possibility of closing the positions.

The results of this analysis show that with the occurrence of extremely adverse market conditions and the Bank's increased positions in instruments sensitive to the interest rate risk, the activities in both the banking and trading books of the Bank remain at a safe level.

The results of the interest rate risk monitoring in the banking book and in the trading book are presented in weekly cycles in reports prepared for the ZAP Liquidity and Market Risk Committee, in monthly cycles - in reports prepared for the Bank's Management Board and the ZAP Committee and in quarterly cycles - for the Bank's Supervisory Board and the Risk Committee (along with the results of the stress tests carried out). Additionally, the results of the analysis of the interest rate risk in the trading book, as part of daily reports, are communicated to the members of the Bank's Management Board and the ZAP Committee.

The interest rate volatility associated with the COVID-19 pandemic did not increase significantly the level of the interest rate risk. The interest rate risk measures in the trading book were monitored on an ongoing basis and although their levels increased, they generally remained within the limits adopted by the Bank.

## 2.3. Foreign exchange risk

The foreign exchange risk is understood as the risk of the BOŚ Group's losses resulting from changes in the foreign exchange rates. This risk is generated in DM BOŚ S.A. (in the trading and non-trading books) and in the Bank (primarily in the trading book).

The Bank's objective in terms of the foreign exchange risk management in the banking book is not to keep individual positions open. The foreign currency exposures arising from the banking book activities are transferred regularly to the trading book on the same day or, at the latest, on the following business day.

The Bank's major foreign exchange positions include positions in PLN, USD, EUR and CHF.

The foreign exchange risk in the non-trading portfolio of DM BOŚ S.A. results from cash being deposited by DM BOŚ S.A. in foreign currencies on accounts of foreign brokers, who - at the request of DM BOŚ S.A.'s customers - buy and sell financial instruments on foreign exchanges. The foreign exchange risk in the non-trading book is also implied by positions related to the operations of DM BOŚ S.A. conducted in the Czech Republic branch,

which are not included in the trading book. DM BOŚ S.A. has open foreign exchange positions in USD, EUR and CZK in its non-trading portfolio, and the foreign exchange risk in this portfolio is managed within the limit of the total foreign exchange position for the trading and non-trading books combined.

The foreign exchange position resulting from the Bank's activity in the banking book that has not been transferred to the trading book on a given day is controlled with the limits of open foreign exchange positions in the banking book at the end of the day.

The foreign exchange risk in the trading book is generated both in the Bank and in DM BOŚ S.A. The foreign exchange risk in the trading book was primarily related to DM BOŚ S.A., and to a smaller extent to the Bank. The open currency positions in the trading book of DM BOŚ S.A. result from rendering services to customers in the field of trading in derivative instruments and from performing services on the regulated market.

The BOŚ Group has a unified system of foreign exchange risk management, calculated separately for the Bank and for DM BOŚ S.A.

### Measures of the foreign exchange risk

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

1. the value at risk model (VaR) determined for the 99% confidence level based on daily the exchange rate volatility for 250 business days preceding the analysis date;
2. the limit system;
3. stress test analyses.

The value of the exchange rate VaR in the trading book of the Bank, DM BOŚ S.A. and the BOŚ Group and the impact of the stress test scenario - the drop of exchange rates of all currencies in relation to PLN by 30% - on the result of the BOŚ Group in half-year periods were as follows (the maximum, minimum and average values were given, and the value as at the reporting date):

	10-day VaR						The BOŚ Group's stress test increase/decrease of currency exchange rates
				Bank	DM	BOŚ Group	by 30%
	average	max.	min.	as at	as at	as at	as at
01-01-2021 – 30-06-2021	279	1,700	16	193	2,132	2,101	-4,187
01-01-2020 -30-06-2020	230	755	8	203	6,956	6,605	-15,818

Once a month, in order to verify the value-at-risk model, the BOŚ Group performs back-testing analyses by comparing the maximum losses determined from the VaR model with the actual profits and losses and with theoretical changes in the result arising from the revaluation of positions. The back-testing results are presented in monthly cycles in the management reports.

The limit system for the foreign exchange risk in the trading book includes: the 10-day VaR limit;

- quota limits per total position and per individual positions for the main currencies, both intraday and end-of-day,
- daily and carry-forward monthly loss limits on the foreign exchange transactions.

The control of utilization of the above limits is carried out every business day, and with regard to the limits for total position and individual positions for the Banks main currencies - also during the day. During the day, the Bank also monitors additional limits for the handling of customer transactions, within the quota limits for foreign exchange positions. Information on the utilisation level of the individual limits is reported to BOŚ S.A.'s management on a regular basis.

The analyses show that in the analysed period the foreign exchange risk at the BOŚ Group was at a moderate level.

Once a month, the Bank carries out a stress test analysis, examining the development of the currency risk level in the event of materialisation of extreme changes in the risk factors. First of all, the impact of extremely adverse changes of exchange rates in relation to PLN and cross exchange rates of EUR/USD and EUR/CHF currency pairs on the FX position result is examined, as well as the impact of changes in exchange rate volatility over 250 business days and correlations between exchange rate volatilities on the VaR level, using both the historical and parametric methods. The historical method accounted for the exchange rate volatility caused by the COVID-19 pandemic.

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

1. historical ones:
  - a. historical increase/decrease of the exchange rates in relation to PLN (including fat tails),
  - b. an increase/decrease in cross-currency EUR/CHF and EUR/USD rates;
2. parametric ones:
  - a. an increase/decrease of the exchange rates in relation to PLN by 30%,
  - b. an increase in the exchange rate volatility,
  - c. an extremely adverse change in the exchange rate correlations.

The stress test scenarios are also run assuming a change in the market liquidity and a lack of possibility of closing the positions.

The results of the stress-testing analysis show that under extremely adverse market conditions and increased positions, the Bank's activity with regard to the currency risk remains at a safe level.

Results of the FX risk analysis in the trading book are presented in daily reports to the members of the Bank's Management Board and the ZAP Committee, in weekly cycles - to the ZAP Liquidity and Market Risk Committee, in monthly cycles - to the Bank's Management Board and the ZAP Committee and in quarterly cycles - to the Bank's Supervisory Board and the Risk Committee.

The exchange rate volatility associated with the COVID-19 pandemic did not increase significantly the currency risk level. The currency risk measures were monitored on an ongoing basis and although their levels increased slightly they remained within the limits adopted by the Bank.

## 2.4. Other market risks

Other market risks are the general and specific equity instrument price risks, the commodity price risk and the position risk in collective investment undertakings. These risks result from the impact of changes in the prices of equity and commodity instruments and investment certificates on the risk of impairment of assets, increase in the level of liabilities or change in the financial result.

These risks occur mainly in the operations of DM BOŚ S.A. in the trading book.

Transactions in equity instruments executed on DM BOŚ S.A.'s own account relate to the operations of DM BOŚ S.A. as a market maker and in most cases are closed at the end of the day. Significant exposure to equity instruments occurs only in case of hedged (arbitrage) transactions opened by DM BOŚ S.A., including short sales. 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 mitigated through total exposure limits, both for secured (arbitrage) and unsecured transactions. These limits are monitored on a daily basis. Furthermore, DM BOŚ S.A. concluded transactions (acting as the market maker) on four investment certificates (BETA ETF WIG20TR Portfolio FIZ, BETA ETF WIG20Short Portfolio FIZ, BETA ETF WIG20Lev Portfolio FIZ and BETA ETF mWIG40 Portfolio FIZ). As a result, DM BOŚ S.A. recorded the position risk in collective investment undertakings and the financial result risk resulting from taking these positions was mitigated by taking opposite positions in futures contracts on WIG20 and mWIG40 indices.

The commodity price risk occurs mainly as part of operations on the OTC market, for transactions concluded with customers of DM BOŠ S.A. and hedging transactions with Saxo Bank A/S, X-Trade Brokers Dom Maklerski S.A. or Interactive Brokers (UK) Ltd.

Volatility in equity instrument prices and commodity prices, as well as of investment certificates, associated with the COVID-19 pandemic, did not increase materially the level of other market risks. The measures of these risks were monitored on an ongoing basis and although their levels increased slightly, they remained within the limits adopted by DM.

## 3. Operational and compliance risk

### 3.1. Operational risk

The operational risk is defined as the possible loss resulting from inadequate or failed internal processes, people and systems, or from external events, including the legal risk, taking into account operational risk events with a low frequency but high losses. The reputation and strategic risks are not included in the scope of the operational risk.

The current and systemic operational risk management at the Bank was carried out using a system built on qualitative and quantitative methods, primarily focused on preventive measures, limiting the Bank's exposure to the risk in question. In particular, this was done through:

- organisation of processes in a manner limiting the occurrence of threats due to the operational risk,
- monitoring the volumes covered by the operational risk limits, in particular the degree to which the adopted tolerance limits and operational risk appetite are used,
- periodic operational risk reviews based on self-assessment,
- collecting information in the operational risk event database, used for the monitoring of the operational risk and measuring and estimating losses from the operational risk events,
- monitoring the level of the operational risk using the implemented methodology of key operational risk indicators (KRI),
- carrying out periodical stress tests for potential losses from operational risk events,
- monitoring the risk of cooperation with external entities, in particular with regard to outsourcing services,
- ongoing, efficient solving of problems resulting from operational risk events, so that they do not have a material impact on the Bank's operations,
- regular reporting of the operational risk, covering in particular the level and profile of the operational risk, the level of utilization of the operational risk limits, and the size of losses from operational risk events.

Taking into account the development of the operational risk management system, the Bank calculates the capital requirement for the operational risk using the standard method.

The information of the operational risk is a part of the periodic management information addressed to the Operational Risk Committee, the Bank's Management Board, the Supervisory Board and the Risk Committee (of the Supervisory Board).

Every new employee of the Bank is subject to obligatory e-learning training on the operational risk management at BOŠ S.A.

In the first half of 2021, a number of tasks were completed as part of the risk management system organisation, including: (1) the operational risk appetite and tolerance limits for 2021 were reviewed and approved, (2) the use of the existing limits was periodically monitored, (3) the Operational Risk Map for 2021 was prepared on the basis of the self-assessment made by the organisational units of the Bank's Head Office, (4) the materiality of the subsidiaries of the BOŠ S.A. Capital Group was assessed with respect to the generated operational risk, (5) an information campaign on the most important issues concerning the Bank's operational risk, addressed to all of the Bank's employees, was launched.

In the first half of 2021, there were no operational risk events that would materially affect the safety of the Bank's and the Capital Group's operations. No significant operational risk events were identified due to the COVID-19 pandemic. In case of the operational risk events, actions were taken to investigate and mitigate potential losses.

## 3.2. Compliance risk

The compliance risk is understood as the risk of consequences of non-compliance with the law, internal regulations and market standards.

The Bank ensures compliance with the 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 the compliance risk and reporting in this respect to the Management Board and the Supervisory Board.

The basic rules for ensuring compliance in the Bank within the control function and the compliance risk management process are set out in the Compliance Policy of Bank Ochrony Środowiska S.A., as developed by the Management Board and approved by the Supervisory Board, as well as executive acts to the Policy, including:

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

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

The compliance risk management at the Bank aims to:

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

The Bank identifies the key areas for compliance:

- preventing illegal activities at the Bank, including counteracting money laundering and financing terrorism,
- information security,
- implementation and monitoring of compliance with the ethical standards,
- accepting or giving benefits and gifts,
- advertising and marketing activities
- offering products,
- customer complaints and claims,
- conflict of interest management.

In the first half of 2021 there were no events that would materially affect the level of the compliance risk, the Bank focused its activities on preventing the occurrence of the compliance risk.

The Bank continued to implement the post-inspection recommendations of the KNF in the area of counteracting money laundering and terrorist financing. The KNF and the Bank's authorities are informed about the current status of the implementation of the recommendations on an ongoing basis.



## **IV. SUPPLEMENTARY INFORMATION**

### **1. Evaluation of the management of financial resources**

The management of financial resources is a fundamental element of the Bank's operations. It consists in shaping the size and structure of the balance sheet, i.e. assets, liabilities and off-balance sheet items, in a way that allows to achieve a steady stream of income while maintaining the required level of security of business operations. The Bank's asset and liability management policy is developed by the Bank's Management Board and the Assets and Liabilities Management Committee.

The basic measures of BOŚ S.A.'s ability to settle its liabilities are the level of liquidity and capital adequacy. The Bank made decisions well in advance on acquiring long-term funds and increasing the stability of the deposit base, which ensured the appropriate structure of the balance sheet and enabled the safe implementation of the Financial Plan.

The maturity structure of assets and liabilities ensures the Bank's ability to meet its obligations and finance its growth. In the analysed period, the development was at a safe level of the capital adequacy ratio.

The quality of the balance sheet management, and thus also the performance of the Bank's obligations, is also primarily affected by the management of the interest rate risk and the foreign exchange risk. The way these risks are managed and monitored indicates that the Bank is able to meet its obligations at an appropriate level.

## 2. Dependence on partners

In the analysed period the Group's entities did not have any customers whose share would reach at least 10% of the sales revenues.

## 3. Transactions with related parties

Description of transactions with related parties is presented in Note 33 of the Additional notes to the Interim Consolidated Financial Statement of the BOŚ S.A. Capital Group for the six-month period ended on 30 June 2021.

The Bank or its subsidiaries did not enter into any transactions with related parties on conditions other than the market ones.

## 4. Seasonality or cyclic nature

In the operations of the BOŚ S.A. Group there are no significant phenomena subject to seasonal fluctuations or of a cyclic nature.

## 5. Information on the Bank's agreements

### Significant agreements

In the first half of 2021 BOŚ S.A. did not conclude any agreement whose value would exceed 10% of its equity.

### Agreements with the Central Bank and supervisory authorities

The Bank did not sign any new agreement with the Central Bank and supervisory authorities in the first half of 2021.

On 30 December 2020, the Bank signed an agreement with the NBP regarding the rules of concluding and settling forward financial operations.

## 6. Factors and unusual events

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

- the COVID19 pandemic - impact mainly through the Monetary Policy Council's decisions to cut interest rates by a total of 140 bps in 2020, which translated to a significant deterioration of the Bank's interest result in 2020 and the first half of 2021,
- A significant increase in the number of court cases concerning credits and loans denominated to CHF and the impact of the introduction of solutions for the entire sector following the judgment of the European Court of Justice ("CJEU") in case C-260/18 Kamil Dziubak, Justyna Dziubak vs Raiffeisen Bank International. Generally, the claims submitted in the lawsuits stemming from credit and loan agreements denominated in foreign currencies concern declaring the credit/loan agreement invalid, alternatively declaring the denomination clauses (conversion clauses) and insurance clauses regulating the bridge securities (low down payment insurance and credit insurance until mortgage is established) as abusive.

In the first half of 2021, in BOŚ S.A. there were no other significant events for the assessment of its HR, property or financial situation, financial result and their changes and for the assessment of the ability to pay its liabilities.

## 7. Information on court proceedings

### Litigation in general

As at 30 June 2021, Bank Ochrony Środowiska S.A. was:

- a plaintiff in 827 cases for the total amount of: PLN 84.05 million,
- a defendant in 559 cases for the total amount of: PLN 162.14 million.

As at 30 June 2021, the Bank was not involved in any material proceedings pending before courts, arbitration authorities or public administration bodies, concerning the issuer's liabilities or receivables, i.e. proceedings whose value represents at least 10% of the Bank's equity.

### Information on proceedings held against the Bank regarding reimbursement of a portion of costs of a consumer credit in connection with early repayment

The provision for the reimbursement of loans in the event of early repayment has been created in accordance with IAS 37 by making assumptions about early repayments of consumer loans in respect of the loan portfolio as at 30 June 2021.

As at 30 June 2021, there are 6 proceedings pending before the courts against the Bank concerning the reimbursement of a portion of the costs of consumer loans due to early repayment. The provisions for early repayment of consumer loans amount to PLN 1.39 million.

### Provision for legal risk related to the portfolio of mortgage loans denominated in foreign currencies

As at 30 June 2021, the BOŚ Group recognised a provision for the risk associated with foreign currency-linked mortgage loans in the consolidated financial statement. The provision was created in accordance with IAS 37 by making certain assumptions about cash outflows or reductions in the value of customer liabilities.

The provision created covers the costs related to the assumed scenarios of solving the problem of mortgage loans denominated in foreign currency, i.e.: concluding agreements with customers and unfavourable court judgements. The provision also includes an identified impairment under the expected credit loss model for which lawsuits have been filed to invalidate the loan agreement.

The total provision for risk related to foreign currency mortgage loans amounts to PLN 398 million, of which PLN 373 million is presented as a provision for litigation and claims for legal risk related to foreign currency mortgage loans, and PLN 24.8 million is presented as additional allowance for expected credit loss.

It is estimated that in case of a part of the credit portfolio the Bank may, in justified cases, enter into agreements with customers in order to limit the legal risk.

With regard to the scenario involving the possibility of reaching an agreement with customers, the assumptions of a sectoral solution to the problem of foreign currency mortgage loans, and in particular those linked to the CHF exchange rate, presented by the Chairman of the Polish Financial Supervision Authority, were adopted. These assumptions are based on the conversion of an existing credit or loan denominated or indexed to a foreign currency into a credit or loan denominated in PLN. It is envisaged that the existing repayments of a denominated or indexed loan or credit will be subject to settlement according to the loan or credit repayment schedule, as if they were PLN loans from the beginning, i.e. including interest rate according to the relevant WIBOR rate increased by a margin. As a result of such conversion, the value of the existing portfolio of denominated loans and advances will decrease, which is reflected in the amount of the provision.

Due to unfavourable court decisions, the probability of final court decisions being unfavourable for the BOŚ Group was assumed for particular scenarios. The adopted scenarios of unfavourable decisions are based on legal opinions and previous experience of the BOŚ Group and take into account declaration of invalidity of agreements, conversion of the loan into PLN, return of the margin used for conversion of the loan amount and repayments received. In the model for calculating the provision, an assumption was also made as to the forecast increase in the number of lawsuits filed by customers over the next 3 years. The date of the loan, which determines the statute of limitations for claims, is also important for estimating the financial loss.

At the time of publication, the number of court cases which ended with a final court judgement is small and does not represent a reliable basis for assessing the risk of a particular outcome scenario. Therefore, the estimate of the legal risk provision for the portfolio of mortgage loans denominated in or indexed to foreign currencies is uncertain, and the amount of the provision may change in the future. The provision is subject to periodic monitoring and updates.

### **Risks material from the BOŚ Group's point of view with regard to financing customers from the wind farm portfolio**

A part of BOŚ S.A.'s corporate loan portfolio is comprised of exposures related to loans granted in the past years to finance onshore wind farms benefiting from the green certificate support system. The risks relating to the financing of this group of customers, identified by the Bank as part of its ongoing monitoring of the economic and financial standing, in particular the market and regulatory risk, are taken into account in the process of individual assessment of exposure, carried out on a monthly basis based on a dedicated valuation model.

The risk of volatility of market prices of electricity and green certificates is addressed in the valuation model by implementing the price paths forecast by the Bank in the medium and long term. The price paths adopted for the valuation are subject to periodical updates based on reports of renowned independent third-party experts; the last update of the price path forecasts took place in June 2021. The funds accumulated in the reserve accounts, used to support the on-going handling of loans, still mitigate the potential reduction of the revenues realised by the Customers as a result of periodical decreases in the prices of energy and/or green certificates.

#### **Impact of the coronavirus pandemic on the business of customers from the wind farm portfolio**

The economic downturn caused by the COVID-19 epidemic has not, to date, materially affected the financial position of customers from the wind farm portfolio. The loans are handled on time, in accordance with the agreed repayment schedules.

### **Risk of legal disputes between the Bank's customers and Energa - Obrót S.A.**

The actions of Energa - Obrót S.A., taken in September 2017 and resulting in the discontinuation of twenty-two framework CPAs for the receipt of property rights resulting from green certificates and in instituting legal proceedings against the counterparties and banks for declaring the absolute invalidity of the agreements concluded, concerned eight customers financed by the Bank.

As at 30 June 2021, six customers of BOŚ S.A. were in litigation with Energa Obrót S.A., with a total exposure of the Bank amounting to PLN 89.7 million, representing 8.2% of the total exposure on account of credit exposures from the wind farm portfolio. So far, the conducted proceedings have resulted in six disputes ended with dismissal of Energa Obrót S.A.'s claim by virtue of final judgments issued by the Court of Appeal.

Energa Obrót lodged cassation complaints against three judgments of the Court of Appeal that were favourable to the Bank's customers; further proceedings in these cases will be conducted before the Supreme Court.

The Bank conducts an ongoing monitoring of the status of pending court proceedings. All customers being in litigation with Energa Obrót S.A. are handling their loan liabilities on time.

As at 30 June 2021, BOŚ S.A. did not act as a co-respondent in any of the pending court disputes with Energa Obrót S.A., therefore the Bank does not identify any risk of having to incur additional costs arising from the proceedings to which its customers are the parties;

## **Risk of regulatory changes with respect to property tax**

The amendment to the Act on amending the renewable energy sources act and certain other acts, published on 29 June 2018, enabled the reinstatement, with retroactive effect as of 1 January 2018, of the provisions favourable to investors concerning the rules of property taxation for wind power plants, which had been in force before 1 January 2017.

On 22 July 2020 the Constitutional Court ruled that the regulations implementing the retroactive reduction of property tax liabilities on wind farms for 2018 were unconstitutional. At the same time, the Constitutional Tribunal set a deadline of 18 months for the legislator to introduce appropriate statutory solutions in order to compensate the communes for the losses suffered as a result of the enactment of the regulations resulting in lowering their income from the wind power plant tax.

The scale of potential additional tax burdens and their impact on the financial standing of the Bank's customers from the wind farms portfolio will depend on the legal solutions adopted by the legislator, which should ensure compliance of the amended RES Act with the Constitution.

## **8. Changes to the basic management principles**

There were no changes in the basic management principles in the first half of 2021.

## **9. Information on dividend**

No dividends were paid or declared in the first half of 2021.

On 23 June 2021, the Ordinary General Meeting of Bank Ochrony Środowiska S.A. passed a resolution to cover the Bank's loss for the period from 1 January to 31 December 2020 in the amount of PLN 310,298 thousand from the reserve capital.

## **10. Information on the value of accepted collateral**

At the end of the first half of 2021, the value of material collateral, excluding blank promissory notes and assignments under insurance policies for real property or movables, amounted to PLN 27,003.6 m. Mortgage collateral remains the most important type of collateral (PLN 12,555.3 m or 46.5%). Pledges amounted to PLN 8,537.3 m, representing 31.6% of the total collateral. Guarantees and sureties amounted to PLN 4,471.1 m or 16.6% of the total securities. Assignments of receivables from a counterparty from an OECD country amounted to PLN 977.0m or 3.6% of the total collateral. Other collateral did not exceed 1% of the total collateral.

## **11. Shareholders and rights attached to shares**

### **11.1. Shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total voting rights at the Bank's General Meeting**

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

- National Fund for Environmental Protection and Water Management - holding 53,951,960 shares or 58.05% of the share capital and of the total number of votes at the General Meeting,

- Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych - holding 8,000,000 shares or 8.61% of the share capital and of the total number of votes at the General Meeting,
- Dyrekcja Generalna Lasów Państwowych (State Forest Enterprise Directorate General) - holding 5,148,000 shares or 5.54% of the share capital and of the total number of votes at the General Meeting.

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

## 11.2. Own shares

As at 30 June 2021, the Bank held 37,775 own shares, which represent 0.04% of the share capital and 0.04% of the total number of votes at the General Meeting of the Bank.

Pursuant to the provisions of the Code of Commercial Companies, the Bank is not entitled to exercise the voting rights attached to its own shares.

## 11.3. Information on agreements concerning future changes in the shareholder structure

The Bank is not aware of any agreements regarding future changes in the shareholder structure.

## 11.4. Holders of special control rights attached to securities

All shares of the Bank are equal and each share confers the right to one vote at the general meeting and the same right to dividend.

## 11.5. Restrictions in exercising the voting rights and in transferring the ownership of securities

Pursuant to the Bank's Articles of Association, in case of a pledge or usufruct established on a registered share, the pledgee and the usufructuary may not exercise the voting rights attached to such shares. Currently, there are no registered shares in the Bank's share capital.

## 12. Supervisory Board and Management Board

### Supervisory Board

As at 31 December 2020, the Supervisory Board was composed of:

- Wojciech Wardacki - Chairman of the Supervisory Board
- Ireneusz Purgacz - Vice-Chairman of the Supervisory Board
- Paweł Sałek - Secretary of the Supervisory Board

Members

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

In the first half of 2021, there were the following changes in the composition of the Supervisory Board:

- on 10 February 2021, following her appointment as Vice-President of the Bank's Management Board as of that day, Ms Marzena Koczut resigned from the position of Member of the Supervisory Board of Bank Ochrony Środowiska S.A.;
- As of 23 June 2021, the Ordinary General Meeting of BOŚ S.A. dismissed Mr Wojciech Wardacki from the Supervisory Board and appointed Mr Zbigniew Dynak and Mr Andrzej Matysiak to the Supervisory Board.

The composition of the Supervisory Board as at 30 June 2021 was as follows:

- Ireneusz Purgacz - Vice-Chairman of the Supervisory Board
- Paweł Sałek - Secretary of the Supervisory Board

Members

- Leszek Banaszak
- Robert Czarnecki
- Zbigniew Dynak
- Janina Goss
- Marcin Jastrzębski
- Andrzej Matysiak
- Emil Ślęzak
- Piotr Wróbel.

Information after the balance sheet date:

At the meeting held on 13 July this year, the Supervisory Board elected Mr. Emil Ślęzak as the Chairman of the Supervisory Board.

Independence of the Supervisory Board Members

Out of the members of the Supervisory Board, as at 30 June 2021,

- the criteria of independence were met by: Mr Emil Ślęzak, Mr Ireneusz Purgacz, Mr Paweł Sałek, Mr Leszek Banaszak, Mr Zbigniew Dynak, Ms Janina Goss, Mr Marcin Jastrzębski
- the criteria of independence - due to the professional relations with shareholders holding at least 5% of the total number of votes in the shareholder structure of BOŚ SA - are not met by: Mr Robert Czarnecki, Mr Andrzej Matysiak and Mr Piotr Wróbel.

## Management Board of the Bank

As at 31 December 2020, the Bank's Management Board was composed of:

- Wojciech Hann - Vice-President of the Management Board managing the Management Board
- Arkadiusz Garbarczyk - Vice-President - First Deputy President
- Jerzy Zań - Vice-President of the Management Board
- Marzena Koczut - Member of the Supervisory Board delegated to temporarily perform the duties of a Member of the Bank's Management Board.

In the first half of 2021, the composition of the Management Board changed as follows:

- as of 10 February 2021, the Bank's Supervisory Board appointed Ms Marzena Koczut to the position of Vice-President of the Bank's Management Board;
- as of 15 February 2021, the Bank's Supervisory Board appointed Mr Robert Kasprzak to the position of Vice-President of the Bank's Management Board;
- as of 3 March 2021, taking into consideration the approval of the Polish Financial Supervision Authority, the Bank's Supervisory Board appointed Mr Wojciech Hann to the position of President of the Bank's Management Board.

In view of the above, the composition of the Bank's Management Board as at 30 June 2021 was as follows:

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

As at the date of this report, the composition of the Bank's Management Board did not change.

## 13. Conflict of interests at BOŚ S.A.

The Bank has regulations regarding the management of conflicts of interest, including rules on prevention of conflicts of interest. The regulations of the Management Board and the Supervisory Board define the rules of excluding members of these bodies from participating in the consideration of issues and making decisions to which a conflict of interest is related. In the event that a potential conflict of interest arises or may arise, those affected are required to disclose the situation.

In addition, the Bank has internal regulations regarding the rules of accepting benefits or gifts which could affect their impartiality and objectivity in making decisions regarding customers or entities cooperating with the Bank.

## 14. Management options and employee shares plans

The Bank does not have an employee share plan.

## 15. Agreements for manager compensations

Agreements concluded with the above mentioned managers included the compensation rules. The following provisions were applicable in this regard:

- in the case of termination or dissolution of the agreement by the Bank for other reasons than the breach of the fundamental duties resulting from the agreement, there is a possibility to award no more than 3-fold of the fixed remuneration, provided that the function entrusted was performed for at least 12 months before the termination of the agreement; the amount of the severance pay is determined by the Supervisory Board taking into consideration the amount of the services provided, their efficiency and



quality during the last 3 years of performing the function, as well as the assessment of the effects of the management services provided, the Bank's financial results and the business line being supervised.

- The above principles covered: in the period from 1 January to 9 February 2021 - three Members of the Management Board, in the period from 10 February to 14 February 2021 - four Members of the Management Board, and in the period from 15 February to 30 June 2021 - five Members of the Management Board.
- in return for refraining from dealing, directly or indirectly, with competitive interests to the Bank after the cessation of such functions, in the case of functions held for at least 3 months, a compensation is envisaged, payable monthly after the cessation of the functions, equal to 50% of the fixed remuneration received immediately prior to the cessation of the functions - for a period of 6 months.
- The above principles covered: in the period from 1 January to 9 February 2021 - three Members of the Management Board, in the period from 10 February to 14 February 2021 - four Members of the Management Board, and in the period from 15 February to 30 June 2021 - five Members of the Management Board.

The Bank has no commitments resulting from pensions and benefits of a similar nature for former managing and supervising persons.

## 16. Shares in the Bank held by Members of the Management Board and Members of the Supervisory Board

According to the information provided, none of the members of the Management Board and none of the members of the Supervisory Board held any of the Bank's shares or any shares in related entities as at 30 June 2021.

As at 30 June 2021, Vice President - First Deputy President Arkadiusz Garbarczyk held:

- 19,190 phantom shares of BOŚ S.A. in connection with the award of variable remuneration for 2019 to the members of the Management Board,
- 2,917 phantom shares of BOŚ S.A. in connection with the award of the first (of three) tranche of the deferred variable remuneration for the 2018 results to the members of the Management Board,

whereby, on 1 July 2021, the above mentioned phantom shares were converted into cash and paid out.

Phantom shares are derivative instruments within the meaning of the regulations on trading in financial instruments, the underlying instrument of which is the value of the Bank's shares on the WSE used by the Bank to effect the payment of the variable remuneration in accordance with the requirements of the Regulation of the Minister of Development and Finance of 6 March 2017 on risk management system and internal control system, remuneration policy and the detailed method of estimating internal capital in banks.

## 17. Information on events after the balance sheet date

There were no significant events for the Bank between 30 June 2021 and the date of publication.

## V. SOCIAL ACTIVITIES

### SOCIETY

For over 12 years the BOŚ Foundation has been operating in the areas of health, ecology and volunteer work, thus combining the pro-society activities of the Bank and the BOŚ Foundation. In accordance with its mission, the Foundation promotes and implements the principles of sustainable development so that raising the living standards of citizens does not take place at the expense of the natural environment.

Highlights of activities and initiatives supported by the Foundation:

- a deep belief in the sense of systematic and long-term actions,
- an orientation towards sustainable social change,
- the scope, form, and partners of the programmes tailored to the specific needs of the local community,
- cooperation with individuals and institutions that share the values enshrined in the Bank's corporate social responsibility,
- proactive attitude of the Bank's employees, both at the stage of diagnosing the needs of local communities and at the stage of engaging in voluntary activities.

## The pillars of the Foundation's social activity

PILLAR	OBJECTIVES OF THE ACTION	EXAMPLES OF INITIATIVES (A DETAILED DESCRIPTION CAN BE FOUND ON THE FOUNDATION'S WEBSITE)
<b>Health</b>	Raising awareness of the role of healthy eating and physical activity in maintaining good health in the era of changing the civilisation conditions.	<ul style="list-style-type: none"> <li>• PlanujeGotuje.pl</li> <li>• Zdrowo jem, więcej wiem</li> </ul>
<b>Ecology</b>	Increasing the level of public knowledge about sustainable development and ecology; Promoting pro-environmental ideas, especially among young people.	<ul style="list-style-type: none"> <li>• Postaw na słońce</li> <li>• Brudno Tu</li> <li>• Zielona Ławeczka</li> <li>• Tradycyjny sad</li> </ul>
<b>Volunteer work</b>	Active volunteer work as an element of the corporate social responsibility policy, as well as one of the most important elements of the organisation's culture, deepening the relationships between co-workers.	<ul style="list-style-type: none"> <li>• Mikrodotacje</li> <li>• Pomagam cały rok</li> </ul>

## The scale of operations (selected data)

- Over 1,340 participants from 285 student teams from all over Poland took part in the 7th edition of "Postaw na słońce" campaign. The students prepared nearly 300 designs of micro photovoltaic installations for single family houses and school buildings.
- Nearly 200 people from over 60 neighborhood teams applied for the 7th edition of the "Zielona Ławeczka" campaign (14 grants were awarded).
- Over 2,600 teams - that is over 50 thousand participants took part in the 11th edition of the pro-health programme for grades I-III "Zdrowo jem, więcej wiem".
- Approx. 1,600 students and teachers are currently taking part in the 4th edition of the "Tradycyjny Sad" campaign, in which nearly 150 mini-orchards have been set up with approx. 1,050 fruit trees planted, including 770 cherry trees of old varieties purchased from the grant.

## Involvement of the BOŚ Group's employees

### Mikrodotacje

The pandemic and all the restrictions associated with it make it difficult to collect applications and implement volunteer projects. Therefore, applications are considered on a rolling basis instead of twice a year. We plan to resume standard calls for proposals in the autumn.

In the first half of 2021, a grant of PLN 3,000 was awarded for the implementation of the volunteer project "Świecimy Słońcem, świeć i Ty", which aims at educating the local community and encouraging the use of renewable energy sources.

The project was implemented by BOŚ volunteers, the number of beneficiaries is estimated at over 560 people.

#### **Pomagam Cały Rok (individual philanthropy)**

"Pomagam Cały Rok" is a project of regular philanthropy for employees of the Bank Ochrony Środowiska Group and the BOŚ Foundation. It was created in response to the need of Bank employees to get involved in helping their co-workers in a difficult situation and in raising funds for charity (currently scholarships for children and young people from poor families). The funds collected are distributed to those in need at the end of each year. Thanks to the commitment of the staff, academic scholarships for the 2020/2021 school year were funded for 3 gifted children from low-income families.

## **VI. FACTORS THAT IN THE BANK'S OPINION WILL AFFECT THE RESULTS GENERATED BY THE BANK**

The operations of the Bank's Capital Group in the second half of 2021 will be significantly affected by the legal and regulatory conditions, as well as the macroeconomic conditions and the situation on the financial markets.

Legal and regulatory conditions:

- changes in the legal environment, in particular as a result of the Supreme Court's decision on foreign currency mortgages,
- amendments to the property tax legislation in connection with the Constitutional Tribunal's judgment of 22 July 2020 according to which the regulations introducing a retroactive reduction of property tax liabilities on wind farms for 2018 were unconstitutional.

Macroeconomic conditions and situation on the financial markets:

The following factors (often interrelated and interdependent) will influence the economic situation in the world, thus affecting the economic situation of Poland:

- the evolution of the epidemic situation in the context of the development of new virus variants in the autumn and winter in the northern hemisphere (the Delta variant is currently spreading the fastest), in particular the evolution of the number of hospital admissions affecting the robustness of the health systems,
- the course of the vaccination process against COVID-19 in different countries, including in particular the European Union,
- possible tightening of the anti-pandemic restrictions,
- the mood and mobility of individuals in the context of the epidemic developments affecting private consumption,
- the mood of businesses as regards the development of the epidemic situation affecting their willingness to invest and recruit,
- the occurrence of supply constraints in the industry (e.g. related to the epidemic restrictions in Asia), persistent disruptions in the global supply chains resulting in reduced activity of the world economy and maintaining cost pressures,
- the loose monetary policy of the major central banks limiting the spikes in the market interest rates,
- the loose fiscal policy of the major world countries (significant loosening in the US) and the expected start of the Next Generation EU spending.

As regards the Polish economy, important macroeconomic and market factors are:

- the evolution of the epidemic situation in the context of the development of new virus variants in the autumn and winter, in particular the evolution of the number of hospital admissions affecting the robustness of the health system,
- the course of the COVID-19 vaccination process,
- possible tightening of the anti-pandemic restrictions,
- recovery of household consumption with the unfreezing of economic activity, a stable situation on the labour market, with a redirection of household spending to services at the expense of goods,
- an increase in investment both in the area of public finance and business investment, in the perspective of 2022, the growing impact on the economy of projects under the National Reconstruction Plan,
- post-pandemic adjustments in the business sector, among others, in the context of the phasing-out of the public support and the longer-term effects of the crisis,
- the monetary policy of the NBP - with the expected continuation of the low interest rate policy of the NBP (clearly below the pre-pandemic levels) in the perspective of the approaching quarters, a gradual normalisation of the NBP rates is expected to start in the conditions of the CPI inflation rate that exceeds the inflation target of the NBP, with the expected continuation of the asset redemption programme by the NBP containing a stronger increase in the treasury bond yields,
- the gradual increase in demand for loans (in particular in the case of housing and consumer loans) in the conditions of progressing activity recovery, with a continuation of the growth in the volume of deposits (in particular of private persons, with a gradual decrease in corporate deposits - the effect of utilization of funds received as the state aid),
- the risk of increased volatility of the PLN exchange rate in view of the uncertainty on the global financial market as to the realisation of the global economic development scenario and the uncertainty as to the final solutions concerning mortgage loans denominated in foreign currencies.

## **VII. DECLARATION OF THE MANAGEMENT BOARD OF BOŚ S.A. ON THE TRUTH AND FAIRNESS OF THE PRESENTED STATEMENTS**

The Management Board of Bank Ochrony Środowiska S.A. declares that, according to the best of its knowledge, the Interim Condensed Consolidated Financial Statement of the Capital Group of Bank Ochrony Środowiska S.A. and the Interim Condensed Financial Statement of Bank Ochrony Środowiska S.A. for the 6-month period ended on 30 June 2021 and the comparable data were prepared in accordance with the binding accounting principles and that they reflect in a true, reliable and clear manner the property and financial situation of the Capital Group of Bank Ochrony Środowiska S.A. and its financial result and of Bank Ochrony Środowiska S.A. and its financial result, and that the Management Board's Report on the activities of the Capital Group of Bank Ochrony Środowiska S.A. gives a true picture of the development, achievements and the situation of the Group and of the Bank, including the description of the basic threats and risks.

## Signatures of the members of the Management Board of BOŚ S.A.

Date	Name	Position/function	Signature
25/08/2021	Wojciech Hann	President of the Management Board	Signed with qualified e-signature
25/08/2021	Arkadiusz Garbarczyk	Vice-President of the Management Board - first deputy to President of the Management Board	Signed with qualified e-signature
25/08/2021	Robert Kasprzak	Vice-President of the Management Board	Signed with qualified e-signature
25/08/2021	Marzena Koczut	Vice-President of the Management Board	Signed with qualified e-signature
25/08/2021	Jerzy Zań	Vice-President of the Management Board	Signed with qualified e-signature