



DIRECTORS' REPORT ON THE OPERATIONS OF THE BANK OCHRONY ŚRODOWISKA GROUP IN 2021

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

Warsaw, March 2022.

Contents

I. SUMMARY OF THE FINANCIAL RESULTS OF THE GROUP	4
II. I. FACTORS AND EVENTS AFFECTING THE FINANCIAL CONDITION OF THE GROUP	9
1. MACROECONOMIC SITUATION	9
2. FACTORS WHICH WILL HAVE A BEARING ON THE RESULTS AT LEAST IN THE NEXT QUARTER	12
3. SIGNIFICANT EVENTS IN 2021	13
4. GROUP'S PRIMARY PRODUCTS, SERVICES AND BUSINESS AREAS	16
4.1. Share of the Bank in the banking sector.....	16
4.2. Banking products.....	16
4.3. Brokerage business.....	21
5. COOPERATION WITH FOREIGN FINANCIAL INSTITUTIONS IN BOŚ S.A.	23
6. KEY CAPEX PROJECTS	23
7. MARKETS	26
8. SELECTED DATA ON THE GROUP'S BUSINESS	27
9. DEVELOPMENT DIRECTIONS FOR THE BANK	27
10. ORGANISATION OF THE GROUP	30
III. FINANCIAL RESULTS AND OPERATIONS	31
1. FINANCIAL RESULTS OF THE GROUP	31
1.1. Statement of profit or loss.....	31
1.2. Statement of financial position of the Group.....	35
1.3. Contingent assets and contingent liabilities of the Group.....	40
2. FINANCIAL RESULTS OF THE BANK	41
2.1. Statement of profit or loss of the Bank.....	41
2.2. Statement of financial position of the Bank.....	45
2.3. Contingent assets and contingent liabilities of the Bank.....	49
3. DIFFERENCE BETWEEN FINANCIAL FORECASTS AND ACTUAL RESULTS	49
4. KEY ACHIEVEMENTS IN THE FIELD OF RESEARCH AND DEVELOPMENT AND INFORMATION ON EXPECTED DEVELOPMENT	49
IV. RISK MANAGEMENT AT THE GROUP	50
1. CREDIT RISK	50
2. FINANCIAL RISK	53
2.1. Liquidity risk.....	54
2.2. Interest rate risk.....	58
2.3. Currency risks.....	62
2.4. Other market risks.....	64
3. OPERATIONAL RISK AND COMPLIANCE RISK	66
3.1. Operational risk.....	66
3.2. Compliance risk.....	67
IV. ADDITIONAL INFORMATION	68
1. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT	68
2. DEPENDENCE ON PARTNERS	68
3. RELATED-PARTY TRANSACTIONS	68
4. SEASONAL OR CYCLICAL NATURE OF THE BUSINESS	68
5. THE BANK'S AGREEMENTS	68
5.1. Significant agreements.....	68
5.2. Agreements with the Central Bank and regulatory bodies.....	68
5.3. Contracts for audit of financial statements.....	69
5.4. Auditor's fee.....	70
6. NON-RECURRING FACTORS AND EVENTS	71

7. COURT PROCEEDINGS	71
8. CHANGES IN SIGNIFICANT MANAGEMENT POLICIES	73
9. INFORMATION ABOUT DIVIDEND	73
10. VALUE OF COLLATERAL	73
11. EVENTS AFTER THE REPORTING DATE	73
V. CORPORATE GOVERNANCE STATEMENT	75
1. CORPORATE GOVERNANCE PRINCIPLES	75
1.1. Corporate governance principles applicable to BOŚ S.A. and where they can be found	75
1.2. Information on waiver of certain corporate governance principles set forth in the Best Practice for GWP (WSE) Listed Companies 2016, Best Practice for GWP (WSE) Listed Companies 2021 and Principles of Corporate Governance for Supervised Institutions issued by the PFSA.....	76
2. SHAREHOLDING STRUCTURE AND RIGHTS ATTACHED TO SHARES.....	78
2.1 Shareholders holding directly and indirectly 5% or more of total voting rights in the Bank.	78
2.2. Treasury shares	79
2.3. Agreements concerning future changes in the shareholding structure	79
2.4. Holders of special control rights attached to securities.....	79
2.5. Limitations to exercising of voting rights and to transfer of ownership of shares..	79
2.6. Rules of amending the Articles of Association of the Bank.....	79
2.7. Description of the manner of operation of the General Meeting and its basic scope of authorization and the rights of shareholders and the manner of exercising these rights.....	80
3. GOVERNING BODIES	83
3.1. General Meeting of the Bank.....	83
3.2. Supervisory Board of the Bank	83
3.3. Management Board of the Bank.....	94
4. CONTROL SYSTEMS DEPLOYED IN FINANCIAL REPORTING	98
5. CONFLICTS OF INTEREST AT BOŚ S.A.	100
6. REMUNERATION POLICY AT BOŚ S.A.	100
6.1. Management Remuneration Policy	100
6.2. Management Stock Option Plan and Employee Share Plan	102
6.3. Remuneration and other payments due to key management staff at BOŚ S.A....	102
6.4.Agreements concerning compensation for managers	102
6.5. Bank's shares held by members of the Management Board and the Supervisory Board	102
VII. NON-FINANCIAL STATEMENT	103
VII. REPRESENTATION ON THE RELIABILITY OF FINANCIAL STATEMENTS	132

I. SUMMARY OF THE FINANCIAL RESULTS OF THE GROUP

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

Summary information on the business of the Group

In 2021, the situation in the Polish economy continued to be affected by the COVID-19 pandemic. From the second quarter onwards, as the vaccination process progressed and the number of hospitalisations fell, the pandemic restrictions were gradually lifted. There was a strong rebound in economic activity.

During the pandemic, the Group accelerated the digital transformation process. This included increasing the role of electronic distribution channels and aligning traditional distribution channels with new market challenges. Among other things, work was carried out on adding new electronic and mobile banking functionalities. Work was also continued on software-based automation of recurring business processes.

In 2021 strategic documents were prepared that set out the Bank's development directions for the coming years. The Bank's Management Board approved:

1. Strategy of Bank Ochrony Środowiska S.A. for 2021–2023.
The Strategy is consistent with the Group Recovery Plan approved by the Polish Financial Supervision Authority. The Bank will seek to achieve sustainable profitability by pursuing key strategic initiatives and strengthening its position of a specialist lender,
2. ESG Strategy of Bank Ochrony Środowiska S.A.,
The document provides a comprehensive framework for the Bank's approach to sustainable development. It presents a set of actions undertaken in view of the Bank's impact on environmental protection, its care for society and the highest standards of corporate governance. The Strategy's objectives – measurable and enabling progress to be monitored over time – are aligned with ESG criteria.

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

In keeping with the new strategy, an analysis of the efficiency of the branch network was carried out. It was decided to restructure the sales network, i.e., close down some of the Bank's retail outlets. The product offering of the Bank was analysed in detail. Products were evaluated for consistency with the new strategy. At the same time, a number of projects were implemented to optimise current processes, including the lending process.

In 2021, a model for environmental consulting was developed, which has brought about a systemic approach to this type of service based on leveraging and commercialising the Bank's expertise. With the new model in place, the following year will see further activities being implemented as part of the Bank's business, with specific sales targets.

Key financial achievements of the Group in 2021

It is important to emphasize that in 2021, despite operating in a business environment affected by the COVID-19 pandemic, the Group posted:

- improvement in net results, which was positive at PLN 47.5 million compared with the PLN 306.9 million loss reported in 2020,
- increase in net interest income by PLN 5.1 million, i.e., 1.4%, on 2020,
- a 5.4% increase in fees and commission income relative to 2020,
- increase the share of green loans to 36.9% of the Bank's total lending portfolio (December 31st 2020: 36.3%),
- a 40% share of green loans in total loans,
- a 26.8% increase in loan sales on 2020.

Results of the Group

In 2021, the Group earned a net profit of PLN 47.5 million, compared with a loss of PLN 306.9 million reported in the previous year. The Group delivered improved results from its core business, both in terms of net interest income and fee and commission income. Since the beginning of 2021, the Bank has seen an increase in the interest margin, after its earlier decrease due to lower interest rates by RPP in the first half of 2020. In each quarter of 2021, interest margins were higher than at the start of the pandemic. The improvement was driven by lower deposit interest rates and the restructuring of the loan portfolio. In the fourth quarter, the improvement was supported by the Monetary Policy Council's decisions to increase interest rates. In future quarters, higher interest rate will significantly support expansion of the interest margin.

Selected items of the statement of profit or loss of the Group

Selected items of the profit and loss account PLN '000	2021	2020	Change (%)
Net interest income	376,085	370,980	1.4
Net fee and commission income	141,854	134,590	5.4
Gain (loss) on financial instruments measured at fair value through profit or loss	67,633	74,461	-9.2
Legal risk costs of mortgage loans denominated in foreign currencies	-20,783	-353,010	-94.1
Net other income	24,276	27,380	-11.3
Net impairment losses	-114,094	-163,793	-30.3
Administrative expenses	-395,702	-376,361	5.1
Profit before tax	79,269	-285,753	x
NET PROFIT	47,456	-306,934	x

The Group's net interest income increased by PLN 5.1 million, or 1.4%, on 2020. Interest and similar income decreased by PLN 86.4 million, or 16.7%, mainly due to lower interest income from institutional clients. Interest expense decreased by PLN 91.5 million, or 62.0%. The decrease was mainly attributable to lower costs of bank accounts and retail deposits.

Net fee and commission income increased by PLN 7.3 million, or 5.4% year on year, mainly as a result of higher commission fees on loans and guarantees, as well as revenue from account handling fees, and other payment transactions in domestic and foreign trade. As in 2020, brokerage fees had a significant impact on the Group's net fee and commission income.

The result on financial instruments measured at fair value through profit or loss was PLN 67.6 million, versus PLN 74.5 million in 2020. The decrease was mainly attributable to lower volatility of financial markets, which affected the number of transactions executed by clients of Dom Maklerski BOŚ and led to a significant decrease in this revenue stream.

In 2021, impairment losses were PLN -114.1 million, compared with PLN -163.8 million in 2020, mainly due to lower impairment losses in the segment of institutional clients.

Administrative expenses of the Group increased by PLN 19.3 million, or 5.1%, relative to 2020, mainly due to a PLN 20.4 million, or 12.0%, increase in salaries and wages.

Net profit (loss) earned by the Group in 2021 was materially affected by additional provisions for the legal risk of foreign currency mortgage loans of PLN 20.8 million. The additional provisions were recognised following an increase in the number of court cases. In 2020, the total amount of provisions for the legal risk was PLN 353.0 million.

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

As at the end of 2021, the nominal amount of CHF-denominated residential loans was PLN 877 million. The provision recognised by the Bank for the legal risk of the CHF loans was PLN 427 million as at December 31st 2021 (December 31st 2020: PLN 370 million).

The total amount of the provision for foreign currency mortgage loans was PLN 462 million as at December 31st 2021 (December 31st 2020: PLN 399 million), of which PLN 408 million (December 31st 2020: PLN 376 million) was presented as a provision for the legal risk related to foreign currency mortgage loans and PLN 54 million was presented as additional allowances for expected credit losses.

The provisions also cover the cost of the Compromise and Settlement Programme for clients repaying foreign currency mortgage loans as proposed by the Chairman of the Polish Financial Supervision Authority. The Bank launched the Programme on January 31st 2022.

Financial ratios of the Group

Financial ratios	2021	2020	Change in percentage points
Return on capital (ROE)	2.5	-14.9	17.4
Return on assets (ROA)	0.2	-1.6	1.8
Interest margin on total assets	1.8	1.9	-0.1
Risks costs	-0.8	-1.2	0.4
Costs/income (C/I)	64.9	62.0	2.9
Tier 1 capital ratio	13.26	13.09	0.17
Total capital ratio	14.61	14.86	-0.25

The capital adequacy ratio of the Group as at December 31st 2021 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional provisions. The minimum capital ratios recommended by the PFSA for the Group are 8.97% for Tier 1 capital ratio and 11.13% for the TCR ratio. As at December 31st 2021, the respective ratios were percentages were 13.26% and 14.61%.

Improved rating outlook

The improvement in the financial condition of the Bank led to a change in the rating outlook. Fitch raised Bank Ochrony Środowiska's rating outlook from negative to stable on October 28th 2021. In its report, the Agency stated that the confirmation of the Bank's ratings and the change of the outlook reflects the Agency's view that the rapid economic recovery and adaptation of the Bank's business model should support the quality of assets and operational profitability over the next two years. The Agency also indicated that the Bank would be able to absorb significant additional provisions for foreign-currency mortgages without any material effect on equity.

Strategy of the Bank for 2021-2023

In June 2021, the Supervisory Board of the Bank approved the Strategy of Bank Ochrony Środowiska S.A. for 2021-2023. The main direction of strategic development of the Bank is further development of the specialist lender for environmental protection projects, pro-environmental investments and upgrades and commercialisation of environmentally-friendly technologies.

The objective of the Strategy for the Bank and the Group is to improve performance in terms of return on equity and cost effectiveness, with a significant improvement in the result on banking activities and increase in the share of green assets in the Bank's balance sheet. Improving employee engagement is also an important part of the Strategy.

In line with the Strategy, in December 2021 the Bank obtained an ESG rating (for details, see section VI 'Non-financial statement').

Director's Report on the operations of the BOŚ Group in 2021

ESG strategy

The Supervisory Board of the Bank approved the ESG Strategy in October 2021. Its announcement is part of the implementation of the Strategy for 2021-2023, adopted in June 2021. The document lists internal and external activities in three areas – environment and climate, social environment, and corporate governance - and sets fully measurable objectives for each of them. The Bank will continue to put strong emphasis on developing green financial products and increasing their importance in its business.

The Bank aims to increase the share of green assets in its loan portfolio to 50% in 2023 (36.3% at the end of 2020). There are also plans to increase sales of products designed to support sustainable development to PLN 400 million in 2022 (with a focus on developing cooperation with SMEs). At the same time, the Bank will not finance thermal coal mining and new coal units, in line with the adopted Climate Policy. The Bank also intends to reduce its negative impact on the environment. The goals in this respect include reducing the carbon footprint by 20% (relative to 2020), building a fleet of company cars consisting of 30% hybrid or zero-emission vehicles by the end of 2023, and fully switching to renewable electricity as of 2022. The Bank intends to significantly increase the proportion of energy-saving lighting and improve the waste management system.

Measures taken by the Group during the COVID-19 pandemic and impact of the pandemic on prospects of the Group.

In 2021, the Group put in place a number of operational solutions to maintain business continuity and mitigate the epidemic risk, both for employees and for clients visiting the Group's branches. A significant number of the Group employees carried out their duties remotely.

The Group offered clients special solutions to mitigate the negative effects of the COVID-19 pandemic, including support in maintaining financial liquidity. The following facilities and solutions were available to the clients of the Bank:

- Guarantees under the Portfolio Guarantee Facility of the BGK Liquidity Guarantee Fund (PLG FGP) as security for liquidity loans. The product was available for both new overdraft and credit facilities as well as renewals, and was intended for medium-sized and large enterprises. The total amount of credit facilities secured with the PLG FGP guarantees was PLN 813.9 million in 2021 and PLN 626.5 million in 2020;
- Biznesmax Guarantees from the Guarantee Fund of the BGK Smart Growth Operational Programme to support innovative projects in the SME sector. The total amount of credit facilities secured with Biznesmax Guarantees was PLN 278.4 million in 2021 and PLN 125.9 million in 2020;
- Guarantees under the de minimis guarantee scheme implemented as part of the government programme 'Support for Entrepreneurship Using BGK Sureties and Guarantees', implemented to improve access to financing. The total amount of credit facilities secured with the PLD-KFG de minimis guarantees was PLN 197.3 million in 2021 and PLN 159.1 million in 2020;
- Factoring guarantees from the Factoring Portfolio Guarantee Facility from the BGK Liquidity Guarantee Fund (FPGF LGF). The product is offered as a liquidity instrument to clients in the SME sector and to large enterprises affected by the COVID-19 pandemic, irrespective of the industry. The total amount of credit facilities secured with factoring guarantees was PLN 285.4 million in 2021 and PLN 88.0 million in 2020;
- financial subsidies offered under Financial Shield 2.0 available from the Polish Development Fund (PFR). A total of 126 applications for financial subsidies were approved under PFR Shield 2.0 for a total amount of PLN 43.9 million. Under PFR Shield 1.0, 1,006 applications for financial subsidies totalling PLN 285 million were approved;
- special solutions for borrowers under the Jessica and Jeremie facilities to mitigate the negative effects of the COVID-19 pandemic.

In 2021, BOŚ S.A. expanded its offer of BGK portfolio guarantees to include two new products:

- On March 17th 2021, the Bank signed FGR Portfolio Guarantee Line Agreement No. 12/PLG FGR/2021 with BGK to expand the offering of BGK portfolio guarantees available to its clients. The agreement was concluded as part of the Agricultural Guarantee Fund, the aim of which is to support agricultural holdings and agri-food processing enterprises (SMEs) in accessing finance by providing guarantees and subsidies in the form of subsidies to interest on working capital loans.

- On June 24th 2021, the Bank signed the EFPiG Portfolio Guarantee Line Agreement No. 2/PLG-EFPiG/2021 with BGK. Under the agreement, the Bank launched a guarantee for individuals wishing to apply for a preferential green loan enabling them to obtain a grant from the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) for partial repayment of loan principal under the NFOŚiGW Priority Programme "Clean Air". EFPiG-guaranteed loans are intended to finance projects involving the replacement of heat sources and the improvement of energy efficiency in single-family residential buildings or separate premises in such buildings. Such guarantees supporting Clean Air loans not only provides financial support to the Bank's clients, but also strengthen the Bank's image.

On January 28th 2021, Annex No. 6 to the deposit and fund management agreement with the Silesia Province was signed, extending the maturity of Jessica loans granted in the Silesia Province from 15 to 20 years.

New funds from the EIB for investment credit facilities

On October 28th 2021, a loan agreement was concluded with the European Investment Bank for EUR 75 million, with the funds made available to the Bank for a period of up to 12 years.

The loan is intended to finance projects implemented by small and medium-sized enterprises employing up to 250 employees and medium-sized enterprises employing fewer than 3,000 employees, as well as public sector entities.

At least 50% of the loaned funds will be used to finance activities promoting climate protection, including in particular renewable energy and energy efficiency projects.

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

On September 7th 2021, an agreement was signed with the National Fund for Environmental Protection and Water Management (NFOŚiGW), under which the Bank will provide subsidies to leases of zero-emission vehicles under the Priority Programme "My Electric". The programme is expected to run until 2026. At least PLN 400 million will be allocated for lease subsidies. BOŚ is currently the only bank-operator in the Programme. Lease subsidies will be provided by the National Fund for Environmental Protection and Water Management.

In the performance of the agreement, on September 30th 2021 the Bank announced an open call for leasing companies that will offer subsidised leases after positive evaluation by the Bank (according to criteria set by the NFOŚiGW). The Bank charges a transfer fee for the operation of the Programme. "My Electric" is the first 'flow-through' programme operated by the Bank.

The Bank also cooperates with the National Fund for Environmental Protection and Water Management as part of the Clean Air Programme and with the Provincial Funds for Environmental Protection under existing agreements for the financing of green projects, mainly in the air protection area.

Recovery Programme replaced with Group Recovery Plan

On December 31st 2021, the Management Board of the Bank decided to launch the Group Recovery Plan approved on December 17th 2021 by the Polish Financial Supervision Authority.

The Plan replaced the Bank's Recovery Program, the most recent update of which was approved by the PFSA on May 24th 2018. The corrective actions taken under the Group Recovery Plan are designed to achieve sustainable profitability of the Bank.

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

1. Macroeconomic situation

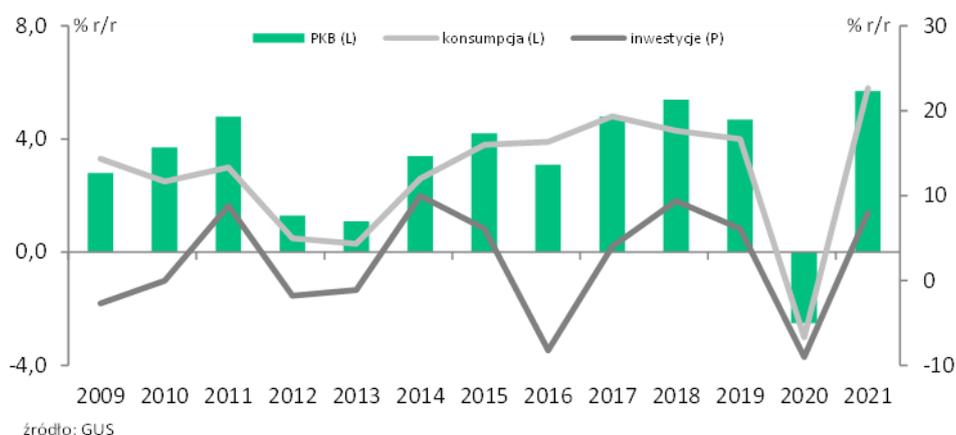
After a deep recession in the global economy in 2020 caused by the COVID-19 pandemic, 2021 saw a strong rebound in economic activity. This was aided by the generally smaller scale of pandemic restrictions and self-imposed constraints on people's activity, which was possible due to the progression of vaccination campaigns against the coronavirus. In 2021, the US's GDP grew 5.7%, compared with a 3.4% contraction in 2020; in the eurozone, the GDP grew 5.2% year on year, with a 2.8% year-on-year increase seen in Germany, compared with a 4.9% contraction in 2020.

Throughout the year, changes in the global and national economies were strongly impacted by factors related to the COVID-19 coronavirus pandemic. After restrictions on socio-economic activity were in place in the first quarter, particularly in Europe, most pandemic-related restrictions were lifted during the second and third quarters as the number of infections declined. This contributed to a strong economic rebound. At the same time, problems with global supply chains intensified in the third quarter (e.g., problems with the availability of semiconductors, a spike in prices of shipping from China), which weakened the pace of the global industrial recovery. In the fourth quarter, another wave of coronavirus infections, while no longer causing as severe restrictions as the year before, nevertheless, through self-limitation and absenteeism due to illness, brought a renewed weakening of economic activity, especially in Europe.

At the same time, a combination of supply and demand factors resulted in a very dynamic increase in prices of most commodities in the second half of the year. This, coupled with strong demand amid opening economies, resulted in widespread increase in inflation to levels not seen in decades. At the end of 2021, CPI reached 7% year on year in the US and 5.0% year on year in the eurozone.

In Poland, GDP expanded by 5.7% in 2021 compared to a 2.5% contraction in 2020. Thus, in 2021, the Polish economy more than made up for the loss of GDP in 2020 caused by the economic shock at the start of the pandemic. For 2021 as a whole, a very strong positive rebound was seen in private consumption, which rose 5.8% year on year, versus a 3% decline in 2020. Gross fixed capital formation increased by 8% year on year, albeit after a deep decline in 2020 by 9% year on year. In other words, in 2021 investment in the economy did not return to the pre-pandemic levels.

Changes in Polish GDP and its main components



PKB	GDP
Konsumpcja	Consumption
Inwestycje	Investments
Źródło: GUS	Source: Statistics Poland

In 2021, improvements in the labour market continued driven by the rebound of economic activity. The registered unemployment rate fell to 5.4% at the end of the year, from 6.3% in December 2020. The number of unemployed fell by more than 150,000 during the 12 months, to 895,000 by year-end 2021. Compared with the end of pre-pandemic 2019, the number of unemployed was higher by less than 30 thousand.

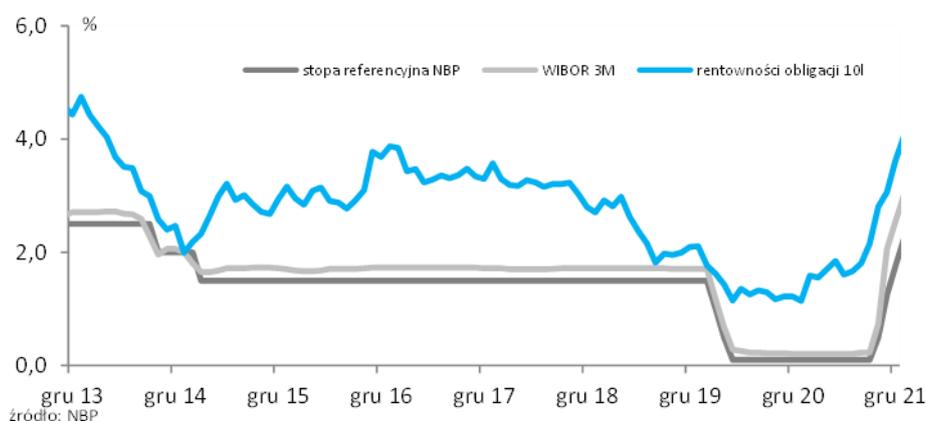
In 2021, the inflation rate increased markedly to 8.6% at year-end, compared with 2.4% in December 2020. The increase was mainly attributable to higher fuel prices pushed by the rising prices of crude oil on the global market. Inflation was also pushed up by stronger food price movements from the low level recorded in 2020, and by administered prices, including those of electricity and gas for household consumers. There was also an increase in the core inflation rate – among other things, the effect of increased demand due to the lifting of epidemic restrictions and supply-side constraints caused by worldwide problems in logistics supply chains.

For most of 2021, the NBP maintained a loose monetary policy, with the reference rate at 0.10%. In October, the Monetary Policy Council (MPC) proceeded to tighten monetary policy and raised interest rates three times in the fourth quarter of the year.

In fourth quarter, the NBP reference rate was increased by 165 basis points to 1.75%, the deposit rate – by 125 bps to 1.25%, and the lombard rate – by 175 bps to 2.25%. At the same time, the MPC increased the minimum reserves ratio from 0.5% to 2.0%. In first quarter of 2022, the MPC continued to tighten the monetary policy, raising interest rates by a total of 175 bps. – to 3.50% for the reference rate. The MPC justified the tightening of the monetary policy with increased concerns about the persistence of higher inflation and the risk that higher inflation would affect inflation expectations and wage growth.

In 2021, the NBP reduced the scale of purchases of financial assets under the programme launched in March 2020, and in November effectively discontinued the programme. From the start of the programme to November 2021, the NBP purchased assets worth PLN 144.3 billion, including PLN 37.2 billion in 2021.

Interest rates



Stopa referencyjna NBP	NBP reference rate
WIBOR 3M	3M WIBOR
Rentowność obligacji 10	10-year treasury yields
Źródło: NBP	Source: NBP

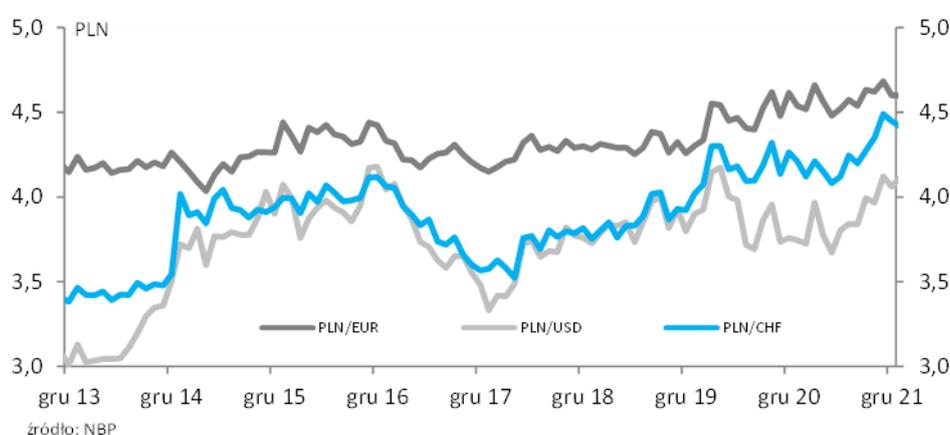
After optimism dominated the global financial market for most of the first half of the year, supported by expectations of economic recovery supported by the progression of vaccination campaigns and the expected continuation of the loose monetary policy by the main central banks, in the second half of the year the financial markets were increasingly concerned with inflationary pressures. As a result, market expectations for monetary tightening by major central banks increased in late third quarter and early fourth quarter of 2021, leading to a sharp rise in government bond yields in most markets.

In the second half of the year, the Polish bond market saw a strong increase in bond yields following the tightening of monetary policy and expectations for further rises in the NBP interest rates in 2022. From the beginning of the year to the end of December, 2-year bond yields rose 332 basis points, to 3.33%, while yields on 10-year bonds increased by 240 basis points, to 3.62%.

Similarly, the tightening of the NBP's monetary policy and expectations of further NBP rate hikes have caused money market interest rates to spike. As at the end of December, the 3M WIBOR rate rose by 233pp, to 2.54%.

Except for periodic strengthening in the second quarter of 2021, the Polish currency was relatively weak. Causes of the weakness included the NBP's loose monetary policy and increased market fears of the inflow of funds to Poland under the National Recovery Plan being postponed. As at the end of December, the PLN/EUR exchange rate was 4.60, i.e., close to the levels seen at year-end 2020. Against the Swiss franc and the US dollar, the zloty weakened in 2021, respectively by 4.3% to 4.45 and by 8% to 4.06 at year-end 2021.

PLN exchange rates



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

The Group's business in 2022 will be affected by macroeconomic factors and the situation in financial markets.

The most important factor that will currently shape the macroeconomic and market situation is the escalation of geopolitical risk as a consequence of the Russian military invasion of Ukraine on February 24th and the economic sanctions imposed by the European Union, the US and other countries on Russia and Belarus. This is causing supply and demand disruptions for European economies, including Poland's.

This situation will affect the Polish economy, with its effects being felt on the commodity market (availability and prices of energy carriers) and in international trade, with and in the area of confidence affecting, inter alia, investors' sentiment and consumers' willingness to spend.

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

In particular, the higher geopolitical risk means:

- weakening of economic activity in Poland, which will become more pronounced in the second half of 2022,
- higher volatility of the labour market in the context of migration flows – on the one hand, in some sectors the supply of workers will increase (e.g., trade, services, hospitality) due to a significant inflow of refugees from Ukraine (mainly women), while on the other hand, the availability of workers in other sector (construction, transport) will decline as a result of accelerated outflows of Ukrainian citizens to their home country;

- higher CPI inflation in the second and third quarters, fuelled by a global increase in commodity prices,
- continued hikes of interest rates by the Monetary Policy Council at the turn of the first and second quarters in response to rising inflation,
- increased volatility of prices of domestic financial assets, coupled with (at least temporary) weakening of the Polish currency and higher yields of treasury bonds,
- the risk of subdued demand for credit in an environment of economic uncertainty and higher interest rates,
- the risk of increased volatility of deposits in the banking sector.

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

In addition to the geopolitical risk, economic activity will be affected by:

- persistent post-pandemic disruption of global supply chains,
- further developments on the COVID-19 pandemic front.

3. Significant events in 2021

Consent by the Extraordinary General Meeting to enter into compromise and settlement agreements

On December 8th 2021, the Extraordinary General Meeting of BOŚ S.A. gave its consent for the Bank to conclude compromise and settlement agreements with consumers who contracted from the Bank mortgage-secured credit products denominated in or indexed to a foreign currency, and defined the principles of determining and approving terms of such agreements with the clients.

The adopted resolution comes in response to a proposal by the Chairman of the Financial Supervision Authority that banks and borrowers should enter into agreements whereby loans based on foreign currency would be settled retrospectively in the same way as PLN loans, and incorporates elements of this proposal into the specific terms of the agreements.

The consent of the Extraordinary General Meeting to conclude settlements with consumers and the execution by the Bank of the agreements will involve costs of such settlements. In 2020, the Bank recognised, and subsequently monitored and updated in 2021, provisions for potential costs of the settlements with borrowers for a total amount of approximately PLN 400 million. Therefore, the execution of the compromise and settlement programme in line with resolution of the Extraordinary General Meeting is not expected to result in significant additional costs. The programme was launched on January 31st 2022, as of which date the clients can apply online for mediation and then, after meetings with the mediator and the Bank, conclude a settlement.

Change of the Bank's rating outlook to stable

On 28 October 2021, the Management Board of BOŚ S.A. reported that the Fitch Ratings Ltd confirmed the Bank's ratings and changed the outlook from negative to stable (see Current Report No. 26/2021).

Financing of wind farms

In Q3 2021, the Bank joined a consortium that will finance the construction of two wind farms with a total installed capacity of 49.9 MW. The special purpose vehicles responsible for the execution of the farm construction projects won an auction organised by the Energy Regulatory Office in November 2020 and were awarded the right to sell electricity as part of an auction support system to cover the negative balance. The amount of financing provided by BOŚ S.A. is PLN 73.6 million;

PFSA – administrative proceedings concerning an administrative penalty

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

GIFI – administrative proceedings concerning an administrative penalty

In March 2019, the General Inspector of Financial Information (GIFI) carried out an inspection concerning fulfilment of the Bank's obligations related to the prevention of money laundering and the financing of terrorism. Following the inspection, the Bank received a positive assessment with an indication of irregularities. The GIFI instigated ex officio proceedings to impose an administrative penalty, following which the Bank was fined PLN 4.5 million. The Bank appealed against GIFI's decision to the Minister of Finance, who in December 2020 issued a decision revoking in whole GIFI's decision to impose a fine of PLN 4.5 million, appealed against by the Bank, and decided to impose a fine of PLN 3.7 million. The Bank filed an appeal against the Minister's decision with the Provincial Administrative Court. On July 21st 2021, the Provincial Administrative Court of Warsaw issued a judgment revoking the decision of the Ministry of Finance and the preceding decision of the GIFI.

The Bank's attorney was served with the Ministry's cassation complaint. The Bank filed a response to the cassation complaint.

Sale of receivables

In 2021, the Bank sold a PLN 245.7 million-worth of loan portfolio (including PLN 46.2 million written off to off-balance sheet records). The sold portfolios were:

- Portfolio 1 – unsecured receivables (including cash loans, overdrafts, credit cards) and receivables with enforced mortgage collateral with outstanding balance below PLN 100,000, with a total amount of PLN 70.1 million (including principal of PLN 49.1 million),
- Portfolio 2 – mortgage-backed receivables and all client's other related products, with a total amount of PLN 22.9 million (including principal of PLN 15.2 million).
- Portfolio 3 – receivables with enforced mortgage collateral, unsecured receivables with no established mortgage collateral and client's all other related products, as well as unsecured receivables with outstanding balance above PLN 100,000, with a total amount of PLN 25.8 million (including principal of PLN 14.6 million).
- Portfolio 4 – receivables from partnerships, corporations and partners in civil-law partnerships and general partnerships, with a total amount of PLN 126.9 million (including principal of PLN 59.9 million).

The impact of the sale on the Bank's profit or loss was negative at PLN -6.5 million net (PLN -6.4 million gross).

Participation in the General Meeting by means of electronic communication

The Supervisory Board of the Bank at its meeting on September 29th 2021 adopted rules governing participation in the General Meeting by means of electronic communication (e-General Meeting). This will enable shareholders of the Bank to participate in the General Meetings via electronic communication devices, which is particularly important at the time of the COVID-19 pandemic. As a result of the adoption of the rules, the Bank updated the status of application of the Code of Best Practice for WSE Listed Companies 2021 and began to apply principle No. 4.1 (see Current Report EBI No. 2/2021).

Distinctions and awards in 2021

- February 2021 – Wojciech Hann, Vice President of the Management Board heading the Management Board, and Radosław Olszewski, President of the Management Board of Dom Maklerski BOŚ, were named among the 'Financial Professionals of the Year 2020' by the *Gazeta Finansowa* newspaper.
- February 2021 – a green mortgage loan offered by the Bank came first in the 'Green mortgage loans' ranking prepared by the *bankier.pl* web service.

- January 2021 – for another consecutive year, the Bank’s economists were ranked among the best in the competition for the most accurate macroeconomic and market forecasts in 2020, organised by the *Gazeta Giełdy i Inwestorów Parkiet* newspaper. March 2021 – the Bank’s economists took the second place in the 13th edition of the competition for the best macroeconomic analysts, organised by editorial boards of two Polish dailies, *Parkiet* and *Rzeczpospolita*.
- March 2021 – the supply chain financing product offered by the Bank based on mixed factoring was awarded distinction in the ‘Factoring’ category of the ‘Finance Order’ poll organised by the *Home&Market* magazine for outstanding financial institutions and their products, recognised for facilitating doing business and addressing client expectations and their changing preferences and needs.
- March 2021 – nine of the Bank’s outlets were placed among the best in Poland by the *Moje Bankowanie* web portal in its ‘Institution of the Year’ ranking. The awarded outlets included branches in Kielce, Koszalin, Krakow, Legnica, Łomża and Nowy Targ, and business centres in Poznań, Warsaw and Wrocław.
- April 2021 – the Bank was listed third in the ‘Golden Banker’ ranking in the ‘Cash Loan’ and ‘Mortgage Loan’ categories in recognition of the pricing terms and flexibility of the offered products. In the overall ranking, the bank came in two places higher than in 2020.
- April 2021 – The Responsible Business Forum (*Forum Odpowiedzialnego Biznesu*, FOB) distinguished and appreciated two further initiatives of the Bank, i.e., its photovoltaic installation calculator and a series of environmental education courses. The projects were included and discussed in a report ‘Responsible Business in Poland 2020. Best Practices’ (*Odpowiedzialny biznes w Polsce 2020. Dobre praktyki*.) It is the largest and most influential review of its kind in Poland. The FOB report also featured several of the Bank’s initiatives that have already proved successful over the years.
- June 2021 – the Bank was awarded the title of ‘Sustainable Finance Leader’ by the Sustainable Economy Award judging panel. The award was presented during the official closing ceremony of the Executive Innovation Forum conference. In the opinion of the panel members, the Bank is a perfect example of how financial institutions can contribute to the delivery of sustainable development objectives. Also appreciated was the Bank’s continuously growing engagement in financing green capital projects, commitment to green bond issues, and raising awareness among retail and corporate clients about ecology, healthy lifestyle and concern for the environment.
- June 2021 – the *Polityka* weekly honoured the Bank with a Silver CSR Leaf, awarded to companies that implement integrated management models encompassing quality assurance, environmental management and employee safety.
- July 2021 – the Bank received a ‘Friendly Workplace 2021’ award from the editorial board of *MarkaPracodawcy.pl*, one of Poland’s most respected and influential HR web portals. Award winners are companies that respect and support the work-life balance model; support and promote community and environmentally-friendly projects; create healthy, safe and friendly working environment; invest in the development of employees’ professional skills and interests, and respect employee rights.
- September 2021 – the Bank was ranked third in ‘Laur CESSIO’ competition under the ‘Outsourcing’ category. The award is presented by the Association of Financial Companies (*Związek Przedsiębiorstw Finansowych*) in cooperation with PwC. The CESSIO Laurel is an important distinction in the broadly defined debt management industry.
- September 2021 – Dom Maklerski BOŚ S.A. was recognised for its activity on the Polish Power Exchange. DM BOŚ S.A. was awarded a distinction as the most active player on the Agricultural Exchange Market; ‘Rozrachunek 2020’ award for its contribution to the development of agri-food commodities markets; and ‘Platynowy Megawatt’ award in the ‘Broker of the Year’ category for Ms Katarzyna Petretsiuk (a DM BOŚ broker) as the most activate broker on the Property Rights Market. September 2021 – DM BOŚ S.A. received *Gazeta Finansowa*’s ‘Financial Brand of the Year’ award in the ‘Brokerage House’ category “for quality research, easily accessible market information and prices, and care for clients’ financial education”.
- October 2021 – the Bank received the ‘Responsible Employer – HR Leader’ award, given to companies that promote and apply appropriate attitudes, models and strategies with respect to HR policies and actions and that make HR an integral part of their business.
- October 2021, the *mojebankowanie.pl* web portal conducted the second edition of the ‘Best Service Quality’ survey. The survey sought to assess the quality of services provided in branches and via remote

banking channels to clients seeking a personal account that could be easily used abroad. Four branches of the Bank – in Gliwice, Kielce, Nowy Targ and Zawiercie – were ranked among the best.

- October 2021 – the Bank received an international award 'Best Green Banking Solutions CEE 2021' for the best green banking solutions in the Central and Eastern Europe in 2021. CFI.co's judging panel appreciated, in particular, the Bank's commitment to financing environmental projects considerably contributing to the value of the Bank's green loan portfolio.
- November 2021 – the Polish Chamber of Ecology awarded the Bank for reducing the Bank's carbon footprint by nearly 50 per cent. The Bank was awarded in this competition for the third time.
- November 2021 – the Bank advanced in two rankings:
 - in the "Bank for Kowalski" category of the ranking compiled by *Newsweek* weekly - the Bank moved up one position, from the 12th to the 11th place. The ranking auditors evaluated the experience of visiting a bank branch to open an account, and then the contact with the bank via the helpline and online/mobile banking channels.
 - In the *Forbes* ranking, the Bank moved up from the 16th position a year ago to the 13th in 2021. The ranking is based on a Mystery Shopper survey. The auditors contacted the helpline and bank outlets pretending to be entrepreneurs looking for micro/small business products. The survey sought to assess the availability of dedicated business client advisers and their commitment to finding solutions that best meet the client's needs.
- December 2021 – the *mojebankowanie.pl* web portal published the results of the third edition of its 'Institutions of the Year' survey in the 'Best Bank Outlet Service' category. The Bank was ranked fifth in the survey whose purpose was to assess the services provided in a bank outlet and via remote banking channels to clients interested in credit card products.

4. Group's primary products, services and business areas

4.1. Share of the Bank in the banking sector

As at the end of 2021, the Bank's share in the Polish banking sector (based on PFSA data on the banking sector, including foreign branches) was as follows:

- total assets – 0.8% (2020: 0.9%),
- non-financial sector deposits – 1.1% (2020: 1.2%),
- lending products – 0.8% (2020: 0.9%).

4.2. Banking products

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

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

Institutional clients

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

As of January 1st 2021, there is also a separate offering of bank accounts for the Bank's institutional clients who are sole traders. The Bank launch the product in the performance of the requirements of the Act amending certain acts to reduce regulatory burdens of July 31st 2019 (the "Act on reduction of regulatory burdens"), which instituted an entrepreneur-consumer.

In the area of payment products, in 2021:

- *Powiernik*, a new application to support housing escrow accounts, was launched. The application enables the execution of automated disbursements from open housing escrow accounts. It significantly simplifies and reduces the workload of the process of disbursing funds from escrow accounts, both for the clients and within the Bank;
- internal systems and regulations were changed and amended to bring the Bank into compliance with Regulation (EU) 2019/518 of the European Parliament and of the Council of March 19th 2019 amending Regulation (EC) No 924/2009 as regards certain fees for cross-border payments in the Community and currency conversion fees;
- the Bank's systems were adjusted to the changes introduced by the Act of November 27th 2020 amending the Value Added Tax Act and certain other acts, as well as the changes planned under the Financial Information System (SInF) bill with respect to the provision enabling the updating of all or part of the data currently transmitted to STIR (*System Teleinformatyczny Izby Rozliczeniowej*, clearing house information and communication system);
- the Bank began work on the SInF Act compliance project. The purpose of the project is to bring the Bank into compliance with the requirements of the SInF Act. The entry into force of the Act will entail a new reporting obligation aimed at preventing money laundering and financing of terrorism. The Act incorporates Directive 2018/843 into Polish law, which will result in the creation of a Financial Information System for collecting, processing and providing access to information on broadly defined open and closed accounts of institutional and individual clients, as well as on safety deposit box services. The Financial Information System is another reporting obligation in the Polish legislation that aims to prevent money laundering and financing of terrorism. Its launch is also intended to contribute to curbing financial crime through the supervision of all accounts by authorised bodies.

Bringing the Bank into compliance with the requirements of the Financial Information System Act, will involve implementing changes to the Bank's reporting systems, which at present are used to fulfil reporting obligations under STIR.

- General terms of service for institutional and sole trader bank accounts were amended. The purpose of the amendments was to clarify the terms of service in the context of the following changes in the laws and regulations:
 - Act of August 11th 2021 amending the Value Added Tax Act and the Banking Law;
 - Act of July 19th 2019 amending the Commercial Companies Code and certain other acts;
 - Act of March 30th 2021 amending the Act on counteracting money laundering and terrorist financing and certain other acts

The amendments also clarified the rules regarding authentication of public documents, including registration and incorporation documents issued abroad.

In the area of lending products:

- The Bank offered its clients loans for thermal insulation and renovation projects with a bonus from the Thermal Insulation and Renovation Fund.
- In selected provinces, the Bank offered preferential loans for environmentally-friendly projects in cooperation with the Provincial Funds for Environmental Protection and Water Management.
- The Bank took steps to optimise and automate the lending process, from client acquisition, to assessment of credit application and credit decision-making, to disbursement of funds, credit monitoring and credit administration. The project covered deployment of a tool to support the assessment process and development of rating systems taking into account the nature of environmentally-friendly products.
- Modifications were made to the institutional product offering in the first half of 2021. In view of the persistent COVID-19 pandemic, the Bank extended the availability of the option to suspend repayment of principal

instalments on lending products (excluding stock market loans) without the requirement to provide additional documents.

Local government units

The Bank provides banking services to local government units, offering a comprehensive range of solutions for efficient management of their budgets and funds. Services for local governments are provided under the Public Procurement Law.

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

Retail clients

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

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

In the second half of 2021:

- work was underway to launch GPay payments on the Bank's mobile app, which was deployed in January 2022,
- online payment card transactions were adjusted to the regulatory requirements regarding strong client authentication.

In electronic banking, the myID service, developed by the National Clearing House, was launched on the BOŚBank24 platform in April 2021, providing functionalities for secure confirmation of identity online.

Clients of the Bank may use myID to:

- set up and use the Trusted Profile,
- confirm identity to use public services on the ePUAP platform – www.gov.pl, available in the My Gov service catalogue.
- confirm identity with commercial service providers, e.g. insurance, telecommunications or medical companies.

With the implementation of myID, BOŚ became one of the electronic identity providers, allowing its clients to do administrative errands or use commercial services online, securely, right from home.

In July 2021, the Bank implemented BLIK mobile payments thus providing its clients with an efficient and modern payment tool. Using the 6-digit BLIK code, users of the BOŚBank24 mobile application can make payments online as well as in brick-and-mortar stores and withdraw cash from ATMs - without using a card. BLIK phone transfers are also available in the app, allowing clients to instantly transfer money to other BLIK accounts.

Amounts due to retail clients

In 2021, measures taken by the Bank with respect to deposit products for retail clients were aimed at:

- care for cost optimisation of the deposit portfolio and ongoing adaptation to the changing market environment,
- maintaining the balance of deposits as needed to meet the Bank's liquidity needs.

The key deposit products for retail clients were:

- current accounts, including personal accounts (*EKOkonto bez Kosztów*), and savings accounts (*EKOkonto Oszczędnościowe*) in PLN,

- promotional deposits: *EKOlokata Promocyjna*, *EKOlokata Na Dobry Początek*, *EKOlokata Zyskowna* and standard deposits,
- foreign currency deposits: *EKOlokata z Frankiem* in CHF.

At the end of the year, in response to the changing market conditions, including the increase in interest rates by the Monetary Policy Council, the Bank launched the *EKOlokata Promocyjna* deposit. The distinctive feature of *EKOlokata Promocyjna* was the high maximum amount (PLN 500 thousand) and simple terms of the promotion (the only requirement was for the client to give their consent to receiving electronic communications). The offer was structured specifically to promote remote delivery channels.

The Bank's other activities with respect to checking accounts focused on maintaining a transparent offering by retaining the following checking accounts: *EKOkonto bez Kosztów*, *EKOkonto VIP*, *EKOkonto PRP* and *EKOkonto oszczędnościowe* in three currencies: PLN, EUR and CHF. In the fourth quarter of 2021, the Bank launched a New Year Promotion for holders of *EKOkonto Oszczędnościowe*, which stood out in the market the fact that there were no additional conditions that the client had to fulfil to enjoy a higher interest rate (no requirement to have a checking account or to deposit new funds).

Promotional campaigns for cash loans were carried out to support sales of credit products for retail clients:

- For any purpose:
 - *Portfel zapasowy* (Spare Wallet), a medium-amount cash product with the financing provided for any purpose, also offered with insurance.
- For environmental purposes:
 - *Nasza woda* (Our Water), continuation of a promotional offer launched in 2020, valid until December 31st 2021, designed to support investments aimed at preventing and countering the effects of drought, a complementary product to the government's *Moja woda* (My Water) programme and the only Climate Leadership-certified loan product of its kind.
 - *Pełnym oddechem* (Full breath), an affinity product for PGNiG's existing and future clients, supporting them in replacing heating sources and other stop-smog initiatives. The offering was part of the Bank's portfolio throughout the year.
 - *Przejrzysta Pożyczka* (Transparent Loan), the Bank's leading loan product to support environmental projects (EKOInwestycje) pursued by both commercial clients and those who are beneficiaries of the *Czyste Powietrze* (Clean Air) governmental programme. Work is underway to make the promotion a permanent part of the Bank's product offering.
 - *Energia ze słońca* (Energy from the Sun), continuation of the offer dedicated to renewable energy sources, designed mainly to provide financing for purchase and installation of photovoltaic systems.
 - *EKO Mobilni*, a promotional offer of *EKO Pożyczka Gotówkowa*, a cash loan that complements the Bank's EKO products. The loan is offered to clients interested in purchasing an electric vehicle, such as a car or a motorcycle with electric drive.

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

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

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

In order to strengthen its offering, in 2021 the Bank also launched *Kredyt Hipoteczny* (mortgage loan), *Ekologiczny Kredyt Hipoteczny* (eco-mortgage loan), and *Pożyczka Hipoteczna* (mortgage cash loan), as part of the *Mniej płacisz, więcej zyskujesz* (Pay Less, Get More) bundled sale, which was valid until November 30th 2021.

The promotion consisted in offering preferential margin rates on mortgage loans:

- reduction of the standard margin by no more than 0.10 b.p. during the term of the loan provided that the borrower opens or maintains any type of checking account with a monthly deposit of minimum PLN 2,000 and maintains access to online banking throughout the term of the loan,
- reduction of the standard margin by no more than 0.10 p.p. during the term of the loan, provided that another credit product (including a credit card) is purchased or maintained for at least five years from the date of the loan agreement,
- reduction of the standard margin by no more than 0.10 p.p. during the term of the loan, provided that any insurance product offered by the Bank is purchased for a period of at least three years from the date of the loan agreement and the standard preparatory fee is paid, except for insurance of property purchased on the primary market.

A promotional offer for mortgage loans prepared in cooperation with Dom Development Kredyty Sp. z o.o. was launched in November 2021. The offer is for clients who choose to purchase a dwelling from Dom Development SA, with Dom Development KredytSp. z o.o. responsible for preparing a complete loan application and passing it on to the Bank for further processing. The promotion runs through May 31st 2022.

Insurance products and additional services

The Bank offers insurance products, such as insurance of financed assets, including insurance of environmental protection equipment and installations, life and health insurance of borrowers, and insurance for payment card holders.

The Bank acts as an insurance agent for five insurance companies. To increase employee safety and convenience of the employees, all 2021 insurance training courses and licensing exams were conducted remotely.

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

Such a combination of both financial products – a grant and a loan – makes project costs ost largely repayable through government co-financing.

The Bank also cooperates with Provincial Funds for Environmental Protection under existing agreements for the financing of green projects, mainly in air-quality protection projects.

4.3. Brokerage business

The year 2021 saw a boom in the domestic stock market, accompanied, however, by a change in the structure of investor activity. All key stock exchange indices delivered positive returns (WIG index gained 21.5%). The annual turnover in session transactions on the WSE's equities market was 5.5% higher year on year, but the increase was mainly driven by the activity of remote exchange members, whose turnover increased by 10.9% year on year. Therefore, the increase in investor activity was seen only among foreign and institutional investors. In the case of the futures market and NewConnect, there was already a marked decline in activity among all investor groups. Trading on the futures market fell by 4.5% year on year and on NewConnect by as much as 59.0%.

Among domestic retail clients, who are the most important group for DM BOŚ, there was a noticeable year-on-year decrease in activity in all market segments. As a result, the turnover generated by DM BOŚ in session transactions fell on the WSE's equities market by 5.8%, on the futures market by 13.9% and the NewConnect market by 61.1% year on year. At the same time, the turnover generated by DM BOŚ was at significantly higher than in 2019, the pre-pandemic year.

In 2021, DM BOŚ's share in the WSE equity market in session trades was 3.75%, compared with 4.20% in the previous year. On the futures market, DM BOŚ remained the market leader, with a 17.87% share. The DM also ranked third among all brokers on NewConnect, with a 15.03% share.

Despite the subdued retail activity on the stock exchange, interest in opening new investment accounts remained high. The total number of all new investment accounts opened at DM BOŚ in 2021 was 15,511, i.e., slightly above the previous year's number of 15,455 accounts. IKE and IKZE retirement accounts were very popular, with 7,912 new accounts, the best result in the history of DM BOŚ.

In 2021, DM BOŚ for the first time exceeded the threshold of 100,000 investment accounts registered with the CSDP, reaching 108,570 accounts at the end of the year. The number of accounts increased by 13.1% during the year, the best result among all CSDP members with more than 10,000 accounts. The number of new accounts opened with the CSDP for DM BOŚ clients was 12,553, i.e., the third best result among all CSDP members.

Higher stock market valuations contributed to the improved attractiveness of the stock market for companies seeking growth capital. In 2021, 16 companies listed on the WSE's regulated market, compared with just seven in 2020. Dom Maklerski BOŚ was actively involved in the offerings on the primary market. It acted as global coordinator or joint global coordinator in six offerings (three offerings on the WSE regulated market and three offerings on the NewConnect market). DM BOŚ participated in all 12 distribution consortia for companies listed on the WSE regulated market and in six consortia for companies listed on NewConnect.

On the corporate bond market, DM BOŚ acted as global coordinator or joint global coordinator in security offerings of four entities. It also participated in bond distribution syndicates for six entities. BOŚ DM was engaged in supporting the development of green investments market. It prepared two green bond offerings, in accordance with Green Bond Principles. In October, DM BOŚ co-organised one of the largest green bond offerings for non-financial sector issuers – Series C green bonds of Famur SA, worth PLN 400 million. Acting as an issue coordinator, DM BOŚ also placed Series F green bonds of Columbus Energy SA, worth PLN 60 million.

DM BOŚ continued its cooperation with AgioFunds TFI and Beta Securities Poland S.A. to promote the domestic market for investment certificates. In 2021, four ETFs were launched on the Polish market, with DM BOŚ acting as the market maker. Among the funds, two were built based on U.S. stock indexes and two – on domestic indices.

In 2021, the range of mutual funds available on the bossafund platform was expanded to include more funds. In total, bossafund currently offers over 300 funds, managed by 21 management companies, making it one of the largest domestic distribution platforms in terms of the number of available funds.

As regards the technological development of the investment services and support tools offered, a new bossaInfo information service for DM clients was launched in 2021, as a new element complementing the offer of public

information services already available on the platform. A new version of the Statica application with the bossaStaticaTrader module was added to the offer, extending the functionality of the application to include the possibility of placing orders, which is a unique service in the market. Also, the processes related to opening and maintaining investment accounts were automated.

The strong market position and high quality of services provided once again contributed to DM winning industry awards. In the 18th Nationwide Investor Survey carried out by the Polish Association of Retail Investors, Dom Maklerski BOŚ was voted the Best Brokerage House of the Year by investors. More than 3,150 investors participated in the survey. Investors gave the highest rating to the trouble-free operation of the trading platform. They also rated very highly the offer of IKE/IKZE retirement accounts and the access to foreign markets. DM BOŚ was also awarded the Bull and Bear prize in the Best Brokerage House category by the editors of the *Gazeta Giełdy i Inwestorów Parkiet* newspaper. The editorial statement highlighted, among other things, the rapid response of DM BOŚ to the impact of the pandemic and the adaptation of work and customer service to the online channels. DM BOŚ was also once again awarded by the WSE the Capital Market Leader statuettes for the highest activity on the futures market and for the largest share as market maker in session trading in equities on NewConnect. DM BOŚ also received three awards for its activity on the Polish Power Exchange. DM BOŚ was awarded a distinction for the highest activity on the Agricultural Exchange Market, the *Rozrachunek 2020* award for contribution to the development of agri-food commodity markets and the *Platynowy Megawat* award in the Broker of the Year category for the highest activity on the property rights market. *Gazeta Finansowa* awarded DM BOŚ with the distinction Financial Brand of the Year in the Brokerage House category "for high quality of research, easily accessible market information and prices, and care for clients' financial education".

Despite the pandemic, Dom Maklerski BOŚ maintains full continuity of operations and supports all key processes. It has put in place a number of solutions to maintain business continuity and mitigate the epidemic risk, both for its employees and for clients visiting the outlets in person. A significant number of DM BOŚ employees work from home. In response to the unprecedented epidemic situation, DM BOŚ has offered the option to open an investment account online. Despite the persistent volatility caused by the Covid-19 pandemic, we have seen a stable level of activity from existing clients as well as an unabated interest in opening new investment accounts, which has had a positive impact on DM BOŚ's financial results and liquidity. The COVID-19 pandemic has not altered the objectives, strategic focus or the liquidity risk management strategy. Dom Maklerski BOŚ has neither received nor applied for any public aid under the government's anti-crisis shield.

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

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

Lender	Loan amount (thousand)	Available amount (thousand)	Currency	Contract date	Principal repayment date
Council of Europe Development Bank, Paris	50,000	-	EUR*	March 17th 2008	Tranche 1 April 25th 2023 Tranches 2 and 3 October 25th 2023
Council of Europe Development Bank, Paris	50,000	-	EUR	March 8th 2010	Tranche 1 April 22nd 2025
Council of Europe Development Bank, Paris	75,000	-	EUR	March 26th 2012	Tranche 1 July 26th 2021 Tranche 2 October 21st 2022 Tranche 3 December 1st 2023
European Investment Bank, Luxembourg	75,000	-	EUR	March 5th 2015	Tranche 1 June 15th 2023 Tranche 2 December 15th 2023
European Investment Bank, Luxembourg	75,000	-	EUR	June 13th 2017	Tranche 1 December 15th 2028 Tranche 2 December 15th 2029 Tranche 3 December 15th 2030
European Investment Bank, Luxembourg	-	75,000	EUR	October 28th 2021	maturity up to 12 years from the date of disbursement
TOTAL EUR	325,000	75,000			

6. Key capex projects

In 2021, capital expenditure of the BOŚ Group was PLN 42.5 million, including PLN 33.7 million at the Bank.

In 2021, a total of 20 projects worth PLN 10.8 million were implemented at the Bank. The projects included business projects (including those related to the priorities of the Bank Ochrony Środowiska S.A. Development Strategy for 2021-2023), development projects as well as regulations-related projects in response to the need to adapt the Bank to legal or regulatory requirements defined by supervisory authorities.

In addition to the key strategic projects listed in Section II.9 'Activities undertaken as part of the Strategy', the following initiatives were pursued:

- BLIK – a project to enable the Bank's clients to execute mobile transactions using the functionality provided by Polski Standard Płatności (Polish Payment Standard) under the BLIK system – the BLIK Project; amount of expenditure incurred: PLN 2.1 million.
- New credit processes – a project designed to implement and integrate all existing systems, applications and tools used in the lending processes in all client segments into a single system; capex amount: amount of expenditure incurred: PLN 1.2 million.
- WWW 2.0 – development of remote sales channels – a project aimed at further development of the Bank's website, especially its sales capabilities; amount of expenditure incurred: PLN 1 million.
- GPay – a project to offer a payment card for retail clients and to execute mobile transactions using a mobile phone; amount of expenditure incurred: PLN 0.7 million.

- CHF – a project involving development and implementation of a comprehensive solution for the retail portfolio of mortgage loans denominated or indexed to foreign currencies (including the Swiss franc) to facilitate efficient execution of the Compromise and Settlement Programme. The Programme was launched on January 31st 2022; amount of expenditure incurred: PLN 0.6 million.
- ePuAP - the goal of the project is to provide the Bank's clients with a functionality enabling access to the ePUAP service (electronic platform of public administration services) in the electronic banking system with the use of trusted profile. The amount of expenditure incurred on the project in 2021 was PLN 0.6 million.
- Split Payment - a project aimed at enhancing the competitiveness of factoring products offered by the Bank by creating the possibility of financing traditional factoring using a split payment mechanism and accepting and settling repayments using a payment mechanism. The amount of expenditure incurred on the project in 2021 was PLN 0.1 million.

The Bank was also engaged in other regulatory projects. Among the most significant ones are: alignment with New Recommendation R of the Financial Supervision Authority and alignment of the Bank's services with International Financial Reporting Standards, as well as implementation of the requirements for changes in the calculation and reporting of the NSFR ratio resulting from the entry into force of Regulation 2019/876 on May 20th 2019. (CRR II). The amount of expenditure incurred on the projects in 2021 was PLN 180 thousand and PLN 35 thousand, respectively.

In support of operationalising the new strategy, efforts were also made to optimise project governance and develop and implement best project practices. To this end, the Bank has been using a dedicated project management support tool since the fourth quarter of 2021.

A significant amount of capital expenditure was incurred on the development of the Bank's IT environment, reduction of the technological debt and cyber security – PLN 16.7 million in total.

In 2022, capital expenditure is expected to be higher than in previous years due to the planned implementation of IT projects. It will be financed with the Bank's own funds. The amount of the planned capex spending reflects the Bank's capabilities in this respect.

In 2021, capital expenditure at Dom Maklerski BOŚ was PLN 8.3 million and was incurred mainly on upgrading the ICT infrastructure to ensure security and a high standard of client service both on the financial instruments market and the commodities market. DM BOŚ also developed electronic delivery channels, including in particular the information system for the broker's clients; additionally, DM BOŚ was obliged to adapt its systems to the market's changing infrastructure environment.

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

In 2022, DM BOŚ plans to incur capital expenditure primarily to improve the security standard of its IT systems and infrastructure, and to further develop customer service systems, including mobile solutions.

Investing in human resources – training and development

When drawing up the 2021-2023 Framework Strategy of BOŚ S.A., the focus was placed on building business competences in support of the Bank's transformation and delivery of the strategic objectives. The Bank's new development plan takes into account the economic consequences of the COVID-19 pandemic, as well as EU and national projects aimed at achieving climate neutrality.

The total of 5,563 persons participated in on-site and online trainings (some of them in more than one), of whom 1,350 attended external trainings and 4,213 internal ones.

Organisational culture is one of the pillars of the Bank's strategy, supporting the delivery of our strategic objectives. The Bank is committed to creating a values-based culture where employees are given the opportunity to develop their skills and pursue their career goals. Four core values were formulated in the course of work on the strategy, namely professionalism, respect for others and for the environment, commitment, and cooperation. To communicate these values to the employees and to create a forum where they could engage in discussion and, more importantly, collaboration, the 'Autumn of Values' project was developed. All employees had access to topical webinars held by external and internal experts and to micro-learning materials dealing with the power of values, their importance in life and business, commitment, or feedback. The materials were made available on the e-learning platform to view at the employees' convenience. The project also involved participation in volunteer initiatives (e.g., Helping by Giving) and competitions.

Trainings were provided in the following areas:

- sales network:
banking systems, applications, products and processes; selling standards; customer service quality; bank's security policies; online banking; domestic/foreign currency cashier training; amended RES act; RES support systems; energy efficiency; waste management market development; environmental projects; Clean Air Programme - receiving and handling applications for subsidies from the National Fund for Environmental Protection and Water Management, etc.;
- risks:
IFRS 9 – Recognition and measurement of impairment in view of the COVID-19 pandemic and regulatory changes affecting the definition of 'default'; impact of the COVID-19 pandemic on the commercial real estate market – changes in the valuation approach and assumptions due to COVID-19; features of corporate finance- and project finance-based approach to financing capital projects, etc.;
- safety at work:
crisis management in cyberattack situations, cybersecurity – identity management; secrecy in banking operations;
- IT:
Data Quality Management, conference 'IT Systems Implementation Contracts', Ansible workshop for IT Operations Team;
- Development of managerial skills, development training for employees.

The e-learning library was accessed by 1,290 users; yet, as some of them attended several training courses, the number of visitors to the library was 6,239.

Major training topics included: key legal provisions and procedures; anti-money laundering and combating the financing of terrorism (AML/CFT) obligations prescribed by applicable laws, in particular identification and verification of beneficial owners and ability to properly use Dow Jones resources; whistleblowing in practice; cooperation and simple communication standards; customer service standards across all segments.

The same model was used to conduct product and environmental knowledge surveys and competence surveys and to provide micro-learning on personal development and soft skills (such as assertiveness, interpersonal communication or public appearances).

7. Markets

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

Geographical distribution of financing sources, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Branches in Warsaw, Head Office, Strategic Clients Branch, Private Banking Center, Sales and Client Service Center, Debt Collection	6,987,707	6,481,042	7.8
Branch in Białystok	408,821	429,478	-4.8
Branch in Bydgoszcz	860,425	913,115	-5.8
Branch in Częstochowa	673,985	722,325	-6.7
Branch in Gdańsk	714,714	630,757	13.3
Branch in Katowice	726,019	875,019	-17.0
Branch in Koszalin	243,767	259,199	-6.0
Branch in Kraków	1,438,026	1,583,321	-9.2
Branch in Lublin	862,453	927,277	-7.0
Branch in Łódź	528,186	500,115	5.6
Branch in Olsztyn	726,884	754,213	-3.6
Branch in Ostrów Wlkp.	279,673	343,131	-18.5
Branch in Poznań	551,335	513,911	7.3
Branch in Rzeszów	788,619	823,251	-4.2
Branch in Szczecin	492,610	455,907	8.1
Branch in Wrocław	1,015,216	935,799	8.5

Until December 31st 2021, Dom Maklerski BOŚ S.A. had a branch in the Czech Republic. Bossa.cz provided Czech investors with access to the forex market in the same formula as the head office in Poland – standard and micro accounts, and the BossaFX transaction system in the online and mobile versions. Revenue of the Czech branch accounted for 1.3% of the brokerage house's revenue for 2021. Dom Maklerski BOŚ S.A. does not conduct any other activity outside Poland.

8. Selected data on the Group's business

Selected data on the Group's business, thousand	December 31st 2021	December 31st 2020	Change (%)
BANK OCHRONY ŚRODOWISKA S.A.			
Number of clients	176.4	216.8	-18.6
Number of retail clients	162.0	197.1	-17.8
Number of institutional clients	14.4	19.7	-26.9
Number of clients using electronic channels	102.8	119.0	-13.6
Number of savings and current accounts ¹	169.7	208.9	-18.8
Debit and credit cards in total	68.7	79.7	-13.8
Number of branches	50	51.0	-2.0
DOM MAKLERSKI BOŚ S.A.			
Number of investment accounts	135.6	120.1	12.9
including online accounts	132.3	116.8	13.3
Number of branches	9	9	0.0

1) together with the savings accounts

As at December 31st 2021, the Bank operated 50 outlets, including:

- 13 Business Centres,
- 37 Operating Branches.

9. Development directions for the Bank

Growth Strategy

On June 22nd 2021, the Supervisory Board adopted a new "Strategy of Bank Ochrony Środowiska for 2021-2023". The Strategy is consistent with the Group Recovery Plan approved by the Polish Financial Supervision Authority.

The Bank will seek to achieve sustainable profitability by pursuing key strategic initiatives and strengthening its position of a specialist lender, as reflected in the Bank's new Mission Statement:

"We support green transition in an innovative and effective manner";

and Vision:

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

The Bank's ambition is to further specialise in the financing of green transition projects. Drawing on its unique environmental and business expertise in financing the green sector and, more broadly, green transition across all sectors of the economy, the Bank will seek to leverage its years of experience in environmental risk analysis. New financial products are being developed to help clients to implement their business projects while respecting natural resources.

The Bank's operations will focus on five key pillars defined in the BOŚ strategy:

Environment and climate - key objectives:

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

Business model - key objectives:

- Enhance cooperation with partners through digital channels which are perceived as the most convenient by clients and cost-effective for the Bank;
- Provide green transition financing solutions for corporate clients and local government institutions;

- Develop comprehensive advisory services and provide support to corporate clients throughout their investment projects.

Operational efficiency - key objectives:

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

Organisational culture - key objectives:

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

Finance - key objectives:

- Implement sustainably profitable business model and improve the Bank's rating;
- Diversify the sources of funding.

Activities undertaken as part of the Strategy

In the second half of 2021, the Bank focused on the operationalisation of the new Strategy. 14 strategic initiatives were defined with a view to carrying out a thorough transformation of the Bank.



Ekologia i Klimat	Environment and climate
Rating ESG	ESG rating
Budowanie portfolio usług doradczych	Building a portfolio of consulting services
Model biznesowy	Business model
Fabryka produktów	Product Factory project
Dostosowanie sieci sprzedaży	Adjustment of sales network
Cyfrowy kanał sprzedaży dla detalu	Digital retail sale channel
Zarządzanie relacjami z klientem CRM	Customer Relationship Management (CRM)
Efektywność operacyjna	Operational efficiency
KONDOR+ Front Office	KONDOR+ Front Office
Uproszczony proces dla kredytów ekologicznych detal	Simplified credit process for green retail loans
Proces kredytowy dla klientów korporacyjnych	Credit process for corporate clients
Cyfrowy wehikuł do zbierania depozytów detalicznych	Digital tool for taking retail deposits
Kultura organizacyjna	Organisational culture
Nowa oferta wartości dla pracowników, w tym system motywacyjny	New values proposed to employees, including a new incentive system
Kultura dialogu i rozwój kompetencji	Culture of dialogue and competence development
Kultura dzielenia się wiedzą (CRM market)	Knowledge sharing culture (CRM market)
Mustang, TFI w obszarze inwestycji proekologicznych	Mustang, TFI offer for environmental investment projects

ESG obtained after adoption of the ESG Strategy.

In 2021, a model for environmental consulting was developed, which has brought about a systemic approach to this type of service based on leveraging and commercialising the Bank's expertise. With the new model in place, the following year will see further activities being implemented as part of the Bank's business, designed to match specific sales targets.

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

Other organisational culture transformation initiatives are: a new set of values proposed to employees along with an incentive system, a culture of dialogue and competence development, and a knowledge sharing culture. To get an objective view of the effectiveness of these efforts, another opinion survey is planned among employees at the end of 2022.

In keeping with the new strategy, an analysis of the efficiency of the branch network was carried out, resulting in a difficult decision to restructure the sales network, i.e., close down some of the Bank's retail outlets, namely branches in Bełchatów, Ełk, Leżajsk, Nowy Sącz, Nowy Targ, Suwałki and Zawiercie. This is necessary to ensure that the Bank's limited resources will be deployed in areas with the greatest growth potential. Affected employees have been offered aid packages, some of them also new positions elsewhere the Bank. Moreover, new Business Centres will be launched in Kielce, Opole and Zielona Góra, in order to strengthen the Bank's presence in the corporate and local government institutions segments.

Strategy operationalisation efforts in the second half of the year focused on detailed analysis of the Bank's product offering. Products were evaluated for consistency with the new strategy. A Product Factory was developed, being a set of project flows aimed to implement a catalogue of retail and corporate customer services supporting remote handling and sales through electronic and mobile banking channels, and to actively contribute to achieving the Bank's business objectives.

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

Process robotisation, which has already proved successful in some areas, is continued. Over the next year, the Bank will pursue the economies of scale and seek to leverage its existing robotics expertise for the purpose of process streamlining and automation. Business efficiency will be the primary criterion when selecting the processes to be robotised.

A new front office system, KONDOR+, has been purchased under one of the strategic initiatives. When implemented, it will result in improved efficiency and quality of services and automation of liquidity, market and credit risk management processes.

10. Organisation of the Group

Structure of the Group

Consolidated subsidiaries of the Group as at December 31st 2021:

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

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

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

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

Other companies in which BOŚ S.A. holds equity interest as at December 31st 2021.

- Wodkan Przedsiębiorstwo Wodociągów i Kanalizacji S.A. - 29.48%.
- Polskie Domy Drewniane S.A. - 0.42% - a decrease from 1% held in 2020 as a result of capital increase in which BOŚ S.A. did not participate.
- Kemipol Sp. z o.o. - 15.03%.

III. FINANCIAL RESULTS AND OPERATIONS

1. Financial results of the Group

1.1. Statement of profit or loss

Statement of profit or loss of the Group, PLN thousand	2021	2020	Change (%)
Interest income and similar income	432,230	518,582	-16.7
Interest expense and similar charges	-56,145	-147,602	-62.0
Net interest income	376,085	370,980	1.4
Fee and commission income	181,742	171,918	5.7
Fee and commission expense	-39,888	-37,328	6.9
Net fee and commission income	141,854	134,590	5.4
Dividend income	6,730	6,262	7.5
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	67,633	74,461	-9.2
Gain (loss) on investment securities	197	4,239	-95.4
Gain (loss) on hedge accounting	764	-2,038	-137.5
Gain (loss) on foreign exchange transactions	25,300	26,396	-4.2
Other income	35,083	20,612	70.2
Other expenses	-43,798	-28,091	55.9
Effect of legal risk of mortgage loans denominated in foreign currencies	-20,783	-353,010	-94.1
Net impairment losses	-114,094	-163,793	-30.3
Administrative expenses	-395,702	-376,361	5.1
Profit before tax	79,269	-285,753	-127.7
Income tax expense	-31,813	-21,181	50.2
NET PROFIT	47,456	-306,934	x

In 2021, the Group earned a net profit of PLN 47.5 million, compared with a net loss of PLN 306.9 million in 2020. The loss in 2020 resulted from the recognition of provisions for the legal risk of foreign currency housing loans.

The Group generated interest income of PLN 376.1 million, an increase of PLN 5.1 million, or 1.4%, on 2020.

Interest and similar income decreased by PLN 86.4 million, or 16.7%, in 2021 relative to 2020, mainly due to a PLN 47.2 million, or 15.3%, decrease in interest income from institutional clients, a decrease in interest on non-trading investment debt securities by PLN 26.5 million, or 27.1%, and a PLN 19.0 million, or 17.6%, decrease in interest income on receivables from retail clients, an increase in interest income from banks and the Central Bank by PLN 5.2 million, or 527.2%, and from financial instruments held for trading, by PLN 1.5 million, or 78.7%. The main reason for the decline in interest income was the of interest rates by the Monetary Policy Council in 2020. In 2021, the average base interest rate applicable to PLN-denominated credit facilities granted by the Bank (net of the impairment interest adjustment) was 2.98% compared with 3.96% in 2020, and to foreign currency-denominated facilities – 2.18% compared with 2.25% in 2020.

Interest expense fell by PLN 91.5 million, or 62.0%, on 2020. The decrease was mainly driven by lower costs of retail accounts and deposits which went down by PLN 68.9 million, or 71.4%. Costs of institutional accounts and deposits decreased by PLN 17.7 million, or 79.1%. Costs of financial instruments (own debt securities) decreased by PLN 2.9 million, or 19.5%.

Deposit interest expense fell mainly as a result of the interest rate reduction. The average base interest rate on deposits placed with the Bank branches in 2021 was:

- 0.23%, compared with 0.85% in 2020, for PLN deposits,
- 0.15%, compared with 0.25% in 2020, for foreign currency deposits.

Net interest income, PLN thousand	2021	2020	Change (%)
Interest and similar income:	432,230	518,582	-16.7
Amounts due from banks and the central bank	6,184	986	527.2
Amounts due from institutional clients	262,901	310,481	-15.3
Amounts due from retail clients	88,596	107,582	-17.6
Non-trading investment debt securities	71,196	97,657	-27.1
Financial instruments held for trading	3,353	1,876	78.7
Hedging transactions	-	-	
Interest expense and similar charges on:	56,145	147,602	-62.0
Bank accounts and deposits from banks	973	321	203.1
Bank accounts and deposits from institutional clients	4,698	22,447	-79.1
Bank accounts and deposits from retail clients	27,583	96,456	-71.4
Borrowings from banks	-	-	x
Borrowings from clients	159	462	-65.6
JESSICA lending support funds	64	177	-63.8
Financial instruments – own debt securities	12,152	15,100	-19.5
Hedging transactions	6,433	7,700	-16.5
Lease liabilities	4,080	3,686	10.7
Litigation and claims related to foreign currency mortgage loans	-	614	x
Other	3	639	-99.5
NET INTEREST INCOME	376,085	370,980	1.4

The Group's net fee and commission income was PLN 141.9 million, an increase of PLN 7.3 million, or 5.4% on 2020, following a higher increase (by PLN 9.8 million) in fee and commission income than an increase in fee and commission expense (by PLN 2.6 million).

Net fee and commission income, PLN thousand	2021	2020	Change (%)
Fee and commission income	181,742	171,918	5.7
Brokerage service fees	100,456	101,450	-1.0
Fees for maintaining client accounts, other domestic and international payment transactions	36,717	32,637	12.5
Commission fees on credit facilities	37,677	31,281	20.4
Commission fees on guarantees and letters of credit	6,355	5,943	6.9
Fees for portfolio management services and other management fees	532	605	-12.1
Other fees	5	2	150.0
Fee and commission expense	39,888	37,328	6.9
Brokerage fees, including:	29,023	27,419	5.8
for custody services	651	405	60.7
Payment card fees	7,199	6,151	17.0
Current account fees	1,675	1,351	24.0
ATM service charges	1,225	1,225	0.0
Fees on amounts due from clients	138	213	-35.2
Fees paid to other banks for cash transactions	-	-	x
Other fees	628	969	-35.2
TOTAL NET FEE AND COMMISSION INCOME	141,854	134,590	5.4

Fee and commission income increased by PLN 9.8 million, or 5.7%. The largest increase was seen in fee and commission income from credit facilities, of PLN 6.4 million, or 20.4%, and fees for client account services and other domestic and international payment transactions of PLN 4.1 million, or 12.5%. Commission fees on guarantees and letters of credit increased by PLN 0.4 million, or 6.9%. Income from brokerage services decreased by PLN 1.0 million, or 1.0%. Fee income from brokerage services accounted for the largest share of the Group's fee and commission income in 2021, of 55.3%.

Fee and commission expense increased by PLN 2.6 million, or 6.9%. The increase was mainly due to a PLN 1.6 million, or 5.8%, increase in brokerage fees, a PLN 1.0 million, or 17.0%, increase in card fees, and a PLN 0.3 million, or 24.0%, increase in current account fees, with commissions on amounts due from clients lower by PLN 0.1 million, or 35.2%.

In 2021, dividend income was PLN 6.7 million, compared with PLN 6.3 million in 2020. The main factor was dividend from Kemipol sp. z o.o., which amounted to PLN 6.3 million, compared with PLN 5.5 million in 2020.

The result on financial instruments measured at fair value through profit or loss was PLN 67.6 million, compared with PLN 74.5 million in 2020. The decrease was mainly attributable to lower volatility of financial markets, which affected the number of transactions executed by clients of Dom Maklerski BOŚ and led to a significant decrease in this revenue stream.

The Group posted gain on investment securities of PLN 0.2 million, compared with PLN 4.2 million in 2020. The higher gain reported in 2020 was earned on sale of securities.

Due to an increase in the number of court cases, the Bank recognised additional provisions of PLN 20.8 million, charged to profit or loss for 2021 and disclosed in the line item 'Legal risk costs of mortgage loans denominated in foreign currencies'. As a result, the amount of provisions recognised in 2020 increased.

In 2021, impairment losses were PLN -114.1 million, compared with PLN -163.8 million in 2020, mainly due to lower impairment losses in the segment of institutional clients.

Administrative expenses of the Group increased by PLN 19.3 million, or 5.1%, relative to 2020, mainly due to a PLN 20.4 million, or 12.0%, increase in salaries and wages.

Administrative expenses, PLN thousand	2021	2020	Change (%)
Employee benefits	191,142	170,723	12.0
Administrative expenses, including:	148,697	152,733	-2.6
– material costs	111,402	109,058	2.1
– taxes and charges	7,254	5,480	32.4
– contribution and payments to BGF	27,073	35,552	-23.8
– contribution and payments to PFSA	2,761	2,360	17.0
– contribution to cover operating expenses of Financial Ombudsman	136	192	-29.2
– Chamber of Brokerage Houses membership fee (<i>Izba Domów Maklerskich, IDM</i>)	91	91	0.0
– other	-	-	x
Depreciation/amortisation, including:	55,843	52,905	5.6
– depreciation of property, plant and equipment	13,503	12,961	4.2
– amortisation of intangible assets	27,200	24,402	11.5
– depreciation of rights-of-use assets	15,140	15,542	-2.6
TOTAL GENERAL ADMINISTRATIVE EXPENSES	395,702	376,361	5.1

As at December 31st 2021, the Bank employed 1,158 persons (FTEs), compared with 1,116 at the end of 2020. The headcount at the Bank was 3.8% higher than at year-end 2020. At the Group level, the number of employees increased by 5.1% on year end 2020. The table below presents employment (FTEs) at the Bank and its subsidiaries.

Employment, full-time equivalents	December 31st 2021	December 31st 2020	Change (%)
Employment at BOŚ S.A.	1,158	1,116	3.8
Employment at subsidiaries	275	248	10.9
EMPLOYMENT AT THE BOŚ GROUP	1,433	1,364	5.1

Efficiency and security of the Group's operations

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

Financial ratios	2021	2020	Change in percentage points
Return on equity (ROE) ¹	2.5	-14.9	17.4
Return on assets (ROA) ²	0.2	-1.6	1.8
Interest margin on total assets ³	1.8	1.9	-0.1
Risks costs ⁴	-0.8	-1.2	0.4
Cost/income (C/I) ⁵	64.9	62.0	2.9

1) net profit to average equity,

2) profit to average assets,

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

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

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

Interest margin on total assets, calculated as the ratio of net interest income to average assets, was 1.8%, compared with 1.9% in 2020. The decrease was mainly attributable to lower interest rates on loans.

The cost/income ratio was 64.9%, compared with 62.0% in 2020, mainly due to an increase in administrative expenses.

Capital ratios

Capital ratios	2021	2020	Change in percentage points
Common equity Tier 1 capital ratio	13.26	13.09	0.17
Common equity Tier 1 capital ratio – net of the effect of IFRS 9 transitional provisions	12.89	12.58	0.31
Tier 1 capital ratio	13.26	13.09	0.17
Tier 1 capital ratio – net of the effect of IFRS 9 transitional provisions	12.89	12.58	0.31
Total capital ratio	14.61	14.86	-0.25
Total capital ratio – net of the effect of IFRS 9 transitional provisions	14.24	14.36	-0.12

As at December 31st 2021, the minimum capital ratios recommended by the Polish Financial Supervision Authority were 8.97% for Tier 1 capital ratio and 11.13% for the TCR ratio.

The capital adequacy ratio of the Group as at December 31st 2021 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional provisions.

1.2. Statement of financial position of the Group

Total assets of the Group as at December 31st 2021 were PLN 20,585.7 million, having increased by 0.4% compared to year-end 2020.

Changes in the structure of the Group's assets

As at December 31st 2021, at 57.6%, amounts due from clients had the highest share in total assets. The share fell by 0.4 percentage points on year-end 2020. The share of investment securities also fell, by 1.4 percentage points. The share of amounts due from other banks increased by 1.2 percentage points, and of cash and balances with central bank - by 0.5 percentage point.

Assets, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Cash and balances with central bank	361,581	266,552	35.7
Amounts due from banks	400,747	155,616	157.5
Financial assets held for trading	155,705	113,134	37.6
Derivative hedging instruments	9,121	-	x
Investment securities:	7,108,931	7,371,414	-3.6
Amounts due from clients, including:	11,855,647	11,887,297	-0.3
measured at amortised cost	11,841,536	11,861,783	-0.2
measured at fair value through profit or loss	14,111	25,514	-44.7
Intangible assets	112,861	110,902	1.8
Property, plant and equipment	84,082	84,651	-0.7
Right of use – leases	78,538	67,796	15.8
Tax assets:	151,072	129,136	17.0
Other assets	267,455	319,331	-16.2
ASSETS TOTAL	20,585,740	20,505,829	0.4

Amounts due from clients

The carrying amount of amounts due from clients of the Group at the end of 2021 was PLN 11,855.6 million, a decrease of 0.3% on December 31st 2020.

As at the end of 2021, amounts due from retail clients measured at amortised cost decreased on year-end 2020 by PLN 189.1 million, or 5.5%, mainly due to a decrease in housing and cash loans. Amounts due from institutional clients measured at amortised cost increased by PLN 165.6 million, or 2.0%.

Amounts due from clients

Amounts due from clients, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Measured at amortised cost	11,804,018	11,827,480	-0.2
Amounts due from retail clients	3,274,642	3,463,724	-5.5
overdraft facilities	224	3,028	-92.6
cash loans	300,926	364,300	-17.4
housing loans	2,728,093	2,845,873	-4.1
other credit facilities	245,399	250,523	-2.0
Amounts due from institutional clients	8,529,376	8,363,756	2.0
working capital facilities	648,741	518,709	25.1
term facilities	6,771,966	7,237,795	-6.4
factoring receivables	599,966	331,450	81.0
lease receivables	136,642	105,756	29.2
purchased receivables	127,311	96,123	32.4
commercial paper	244,750	73,923	x
Measurement at fair value through profit or loss	14,111	25,514	-44.7
Amounts due from retail clients	651	1,192	-45.4
housing loans	257	427	-39.8
other credit facilities	394	765	-48.5
Amounts due from institutional clients	13,460	24,322	-44.7
working capital facilities	19	39	-51.3
term facilities	13,441	24,283	-44.6
Total	11,818,129	11,852,994	-0.3
Security deposits	32,768	31,704	3.4
Other amounts due from clients	4,750	2,599	x
TOTAL AMOUNTS DUE FROM CLIENTS	11,855,647	11,887,297	-0.3

Amounts due from institutional clients measured at amortised cost represented the largest share of total amounts due from clients, of 71.9%. Their share increased by 1.6 percentage points on year-end 2020. Amounts due from institutional clients measured at amortised cost were PLN 8,529.4 million.

The share of amounts due from retail clients measured at amortised cost in total amounts due decreased by 1.5 percentage points, to 27.6%. The amount of retail loans measured at amortised cost was PLN 3,274.6 million at year-end 2021, compared with PLN 3,463.7 million at year-end 2020.

Housing loans

Housing loans, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Loans measured at amortised cost	2,728,093	2,845,873	-4.1
Housing loans in PLN	1,408,756	1,367,273	3.0
Housing loans in CHF	767,387	860,971	-10.9
Housing loans in EUR	520,349	583,561	-10.8
Housing loans in USD	31,601	34,068	-7.2
Loans measured at the fair value through profit or loss	257	427	-39.8
Housing loans in PLN	257	427	-39.8
TOTAL HOUSING LOANS	2,728,350	2,846,300	-4.1

Foreign currency loans accounted for 48.4% of total housing loans (51.9% year-end 2020). The share of housing loans denominated in CHF in the total loan portfolio of the Group (net) was 6.5%, having decreased by 0.8 percentage point on year-end 2020.

GREEN LOANS

Green loans, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Green loans to institutional clients	4,237,528	4,245,699	-0.19%
Green loans to retail clients	489,446	414,726	18.02%
GREEN LOANS*	4,726,975	4,660,425	1.43%

*by principal amount

The balance of green loans as at December 31st 2021 was 4,727 million, an increase of 1.43% on December 31st 2020. The share of green loans was 36.88% of the Bank's total loan portfolio (by principal amount). As of December 31st 2020, the share was 36.34%.

Lending products sold in the reporting period

Loans to clients made during the year PLN thousand	2021	2020	Change (%)
Loans to institutional clients	3,822,607	2,944,717	29.8
Loans to retail clients	374,107	365,176	2.4
LOANS MADE DURING THE YEAR	4,196,713	3,309,893	26.8

In 2021, the Bank made new loans for a total amount of PLN 4,196.7 million, an increase of 26.8% on 2020 (at principal amount upon origination). Sales to institutional clients increased by 29.8%, and to retail clients by 2.4%.

Green loans to clients

Green loans to clients made during the year PLN thousand	2021	2020	Change (%)
Green loans to institutional clients	1,502,266	1,172,209	28.16%
Green loans to retail clients	167,380	174,185	-3.91%
GREEN LOANS MADE DURING THE YEAR	1,669,646	1,346,394	24.01%

Sales of green loans in 2021 were PLN 1,669.6 million, 24% more than in 2020. The vast majority (in value terms) of the new green loans were made to institutional clients (90%). Loans for energy and municipal utilities projects represented the largest share of the total (39% of total green loans in value terms).

Quality of the Group's loan portfolio

Quality of the loan portfolio	December 31st 2021	%	December 31st 2020	%
Amounts due from clients measured at amortised cost				
Amounts due from clients with no indication of impairment, including:	11,146,432	86.2	10,983,679	84.3
exposures without significant credit risk increase since initial recognition (Bucket 1)	9,883,695	76.5	8,582,957	65.9
wind farms	929,288	7.2	1,167,101	9.0
exposures with significant increase in risk since initial recognition (Bucket 2), including:	1,262,737	9.8	2,400,722	18.4
wind farms	49,790	0.4	-	0.0
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows, including:	22,382	0.2	337,120	2.6
wind farms	12,842	0.1	219,641	1.7
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,757,830	13.6	1,709,690	13.1
wind farms	-	-	13,434	0.1
Total amounts due from clients measured at amortised cost (gross)	12,926,644	100.0	13,030,489	100.0
Impairment losses on:				
amounts due from clients – (Bucket 1)	- 88,097		- 84,772	
wind farms	- 12,205		- 30,947	
amounts due from clients – (Bucket 2), including:	- 80,534		- 126,123	
wind farms	- 1,304		- 30,947	
amounts due from clients – (Bucket 3) with no indication of impairment, including:	- 588		- 10,245	
wind farms	- 504		- 8,734	
amounts due from clients – (Bucket 3) with indications of impairment, including:	- 953,407		- 981,869	
wind farms	-		- 1,578	
Total impairment losses	- 1,122,626		- 1,203,009	
Total amounts due from clients measured at amortised cost (net)	11,804,018	91.3	11,827,480	90.8
Amounts due from clients measured at fair value through profit or loss				
Fair value, including:	14,111		25,514	
wind farms	-		-	
Total amounts due from clients measured at fair value through profit or loss	14,111		25,514	
Security deposits	32,768		31,704	
Other amounts due from clients	4,750		2,599	
Total amounts due from clients	11,855,647		11,887,297	

At the end of 2021, impairment losses amounted to PLN 1,122.6 million. The share of amounts due from clients with indications of impairment in the entire portfolio measured at amortised cost was 13.6% as at December 31st 2021, compared with 13.1% as at the end of 2020.

Equity and liabilities of the Group

Equity and liabilities of the Group, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Amounts due to central bank and other banks	420,389	732,743	-42.6
Financial liabilities held for trading, including:	99,659	103,316	-3.5
Derivative hedging instruments	-	24,497	-100.0
Amounts due to clients	17,007,863	16,560,715	2.7
Liabilities arising from issue of bank securities	-	-	x
Subordinated liabilities	369,107	368,996	0.0
Provisions	450,803	418,534	7.7
Tax liabilities	8,810	1,103	698.7
Lease liabilities	81,170	71,229	14.0
Other liabilities	282,144	311,526	-9.4
Total equity	1,865,795	1,913,170	-2.5
TOTAL EQUITY AND LIABILITIES	20,585,740	20,505,829	0.4

As at the end of 2021, amounts due to clients represented the largest share (82.6%) of total equity and liabilities. The share increased by 1.9 percentage points on December 31st 2020. The share of provisions also increased, by 0.1 percentage point.

The share of equity decreased by 0.3 percentage points, and amounts due to the Central Bank and other banks fell by 1.5 percentage points.

Sources of funding of the Group

Amounts due to clients, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Retail clients	8,515,701	9,380,943	-9.2
current/checking accounts	4,942,698	5,206,561	-5.1
term deposits	3,573,003	4,174,382	-14.4
Institutional clients	7,799,099	6,305,999	23.7
current/checking accounts	6,255,578	5,126,798	22.0
term deposits	1,543,521	1,179,201	30.9
Other clients	84,032	72,182	16.4
Borrowings from International Financial Institutions	510,954	715,708	-28.6
Lending support funds	98,077	85,883	14.2
TOTAL AMOUNTS DUE TO CLIENTS	17,007,863	16,560,715	2.7

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

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

As at December 31st 2021, amounts due to clients of the Group were PLN 17,007.9 million, having increased by 2.7% on year-end 2020.

Amounts due to institutional clients increased by PLN 1,493.1 million, or 23.7%, and amounts due to retail clients fell by PLN 865.2 million, or 9.2%, relative to year-end 2020.

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

In 2021, the Group did not take out any credit facilities or sign any borrowing, surety or guarantee agreements not related to its business.

1.3. Contingent assets and contingent liabilities of the Group

Contingent assets and liabilities, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Contingent liabilities:	3,264,122	2,863,156	14.0
Financial, including:	2,814,089	2,490,309	13.0
open credit lines, including:	2,793,138	2,464,889	13.3
<i>revocable</i>	2,337,580	2,130,346	9.7
<i>irrevocable</i>	455,558	334,543	36.2
<i>open import letters of credit</i>	20,951	20,250	3.5
loan commitments, including:	-	5,170	-100.0
irrevocable	-	5,170	-100.0
<i>Guarantees, including:</i>	450,033	372,847	20.7
credit repayment sureties and guarantees	12,739	12,739	0.0
performance bonds	437,294	360,108	21.4
Contingent assets:	2,143,824	915,199	134.2
Financial, including:	344,955	-	x
<i>open lines of credit</i>	344,955	-	x
Guarantees	1,781,345	899,975	97.9
Other	17,524	15,224	15.1

Total contingent liabilities of the Group as at December 31st 2021 were PLN 3,264.1 million, including financial liabilities of PLN 2,814.1 million. As at December 31st 2021, outstanding guarantees provided by the Group, disclosed off-balance sheet, were PLN 450.0 million, of which:

- all guarantees were provided by the Bank to residents,
- 65.3% (in value terms) of the guarantees issued in 2021 were domestic performance bonds,
- in value terms, most of the guarantees (86.9%) were domestic performance bonds (41.1%), domestic payment guarantees (23.1%), and other domestic guarantees (22.6%).

As at December 31st 2021, the guarantees were issued at the request of (in value terms):

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

As at December 31st 2021, the total amount of guarantees increased by PLN 77,186 thousand, or +20.7%, year on year.

Sureties and guarantees granted and obtained in the financial year

In 2021, the Bank granted 162 guarantees and sureties for a total amount of PLN 183.2 million, of which 112 guarantees and sureties for a total amount of PLN 173.3 million were outstanding as at December 31st 2021 (2020: 124 guarantees and sureties granted for a total amount of PLN 186.7 million, of which 72 guarantees and sureties for a total amount of PLN 161.3 million were outstanding as at December 31st 2020).

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

- from 1 month to 3 years – 94.6%,
- 3 to 5 years – 3.8%.
- more than 5 years – 1.6%.

2. Financial results of the Bank

2.1. Statement of profit or loss of the Bank

In 2021, the Bank posted a net profit of PLN 48.7 million, compared with a net loss of PLN 310.3 million in 2020. The loss in 2020 was attributable to the recognition of provisions for legal risk arising from housing loans denominated in foreign currencies.

Statement of profit or loss of the Bank

Statement of profit or loss of the Bank, PLN thousand	2021	2020	Change (%)
Interest and similar income, including:	424,897	516,280	-17.7
Interest expense and similar charges, including:	-58,934	-148,985	-60.4
Net interest income	365,963	367,295	-0.4
Fee and commission income	83,703	72,441	15.5
Fee and commission expense	-10,794	-9,745	10.8
Net fee and commission income	72,909	62,696	16.3
Dividend income	6,527	6,205	5.2
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	20,222	18,601	8.7
Gain (loss) on investment securities	197	4,239	-95.4
Gain (loss) on hedge accounting	764	-2,038	-137.5
Gain (loss) on foreign exchange transactions	25,257	25,071	0.7
Other income	16,968	9,469	79.2
Other expenses	-30,190	-15,566	93.9
Effect of legal risk of mortgage loans denominated in foreign currencies	-20,783	-353,010	-94.1
Net impairment losses	-105,488	-165,714	-36.3
Administrative expenses	-300,022	-285,778	5.0
Share of profit (loss) of equity-accounted entities	21,567	29,471	-25.3
Profit before tax	73,891	-299,059	x
Income tax expense	-25,177	-11,239	125.0
NET PROFIT	48,714	-310,298	x

In 2021, the Bank generated net interest income of PLN 366.0 million, a decrease of PLN 1.3 million, or 0.4%, on 2020. Interest and similar income decreased by PLN 91.4 million, or 17.7%, on 2020, mainly due to a PLN 52.7 million, or 17.1%, decrease in interest income on amounts due from institutional clients, with interest on amounts due from

retail clients down by PLN 19.0 million, or 17.6%. Interest income on non-trading investment debt securities decreased by PLN 26.5 million, or 27.1%.

Net interest income, PLN thousand	2021	2020	Change (%)
Interest and similar income:	424,897	516,280	-17.7
Amounts due from banks and the central bank	6,184	979	531.7
Amounts due from institutional clients	255,599	308,266	-17.1
Amounts due from retail clients	88,596	107,582	-17.6
Non-trading investment debt securities	71,196	97,657	-27.1
Financial instruments held for trading	3,322	1,796	85.0
Hedging transactions	-	-	x
Interest expense and similar charges on:	58,934	148,985	-60.4
Bank accounts and deposits from banks	890	178	400.0
Bank accounts and deposits from institutional clients	7,799	24,921	-68.7
Bank accounts and deposits from retail clients	27,487	96,290	-71.5
Borrowings from clients	159	462	-65.6
JESSICA lending support funds	64	177	-63.8
Financial instruments – own debt securities	12,152	15,100	-19.5
Hedging transactions	6,433	7,700	-16.5
Lease liabilities	3,950	3,543	11.5
Litigation and claims related to foreign currency mortgage loans	-	614	-100.0
NET INTEREST INCOME	365,963	367,295	-0.4

Interest expense fell by PLN 89.4 million, or 60.3%, on 2020. The decrease was mainly due to lower costs of retail accounts and deposits which decreased by PLN 68.8 million, or 71.5%. Costs of bank accounts and deposits of institutional clients fell by PLN 17.1 million, or 68.7%. Costs of financial instruments (own debt securities) decreased by PLN 2.9 million, or 19.5%.

Net fee and commission income of the Bank increased by PLN 10.2 million, or 16.3%, on 2020, due to a higher rate of increase in fee and commission income (by 15.5%) than in fee and commission expense (by 10.8%).

Total fee and commission income increased by PLN 11.3 million, or 15.5%. There was a PLN 6.2 million, or 19.7%, increase in fee and commission income on loans, a PLN 4.6 million, or 13.2%, increase in fees for servicing client accounts, and a PLN 0.4 million, or 6.9%, increase in commission income on guarantees and letters of credit.

Net fee and commission income, PLN thousand	2021	2020	Change (%)
Fee and commission income	83,703	72,441	15.5
Fees for maintaining client accounts, other domestic and international payment transactions	39,585	34,965	13.2
Commission fees on loans	37,758	31,531	19.7
Commission fees on guarantees and letters of credit	6,355	5,943	6.9
Other fees	5	2	150.0
Fee and commission expense	10,794	9,745	10.8
Payment card fees	7,199	6,151	17.0
Current account fees	1,675	1,351	24.0
ATM service charges	1,225	1,225	0.0
Fees on amounts due from clients	97	213	-54.5
Fees paid to other banks for cash transactions		-	x
Other fees	598	805	-25.7
TOTAL NET FEE AND COMMISSION INCOME	72,909	62,696	16.3

Fee and commission expense increased by PLN 1.0 million, or 10.8%, mainly on higher payment card fees, which increased by PLN 1.0 million, or 17.0%.

In 2021, dividend income was PLN 6.5 million, compared with PLN 6.2 million in 2020. The main factor was dividend from Kemipol sp. z o.o., which amounted to PLN 6.3 million, compared with PLN 5.5 million in 2020.

Gain (loss) on financial instruments measured at fair value through profit or loss was PLN 20.2 million, compared with PLN 18.6 million in 2020.

Gain on investment securities was PLN 0.2 million, compared with PLN 4.2 million in 2020. The higher gain reported in 2020 was earned on sale of securities.

Due to an increase in the number of court cases, the Bank recognised additional provisions of PLN 20.8 million, charged to profit or loss for 2021 and disclosed in the line item 'Legal risk costs of mortgage loans denominated in foreign currencies'. As a result, the amount of provisions recognised in 2020 increased.

In 2021, impairment losses were PLN -105.5 million, compared with PLN -165.7 million in 2020, mainly due to lower impairment losses in the institutional clients segment.

Administrative expenses of the Bank increased by PLN 14.2 million, or 5.0%, relative to 2020, mainly due to a PLN 16.8 million, or 13.7%, increase in salaries and wages.

Administrative expenses, PLN thousand	2021	2020	Change (%)
Employee benefits	139,300	122,541	13.7
Administrative expenses, including:	115,259	120,468	-4.3
material expenses	82,169	81,320	1.0
taxes and charges	3,720	1,679	121.6
contribution and payments to BGF	26,953	35,441	-23.9
contribution and payments to PFSA	2,297	1,866	23.1
contribution to cover operating expenses of Financial Ombudsman	120	162	-25.9
Depreciation/amortisation, including:	45,463	42,769	6.3
depreciation of property, plant and equipment	8,133	7,301	11.4
amortisation of intangible assets	24,265	22,023	10.2
depreciation of rights-of-use assets	13,065	13,445	-2.8
TOTAL ADMINISTRATIVE EXPENSES	300,022	285,778	5.0

Efficiency and security of the Bank's operations

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

Financial ratios	2021	2020	Change in percentage points
Return on equity (ROE) ¹	2.6	-15.3	17.9
Return on assets (ROA) ²	0.2	-1.6	1.8
Interest margin on total assets ³	1.8	1.9	-0.1
Risks costs ⁴	-0.8	-1.2	0.4
Cost/income (C/I) ⁵	62.7	60.0	2.7

1) net profit to average equity,

2) profit to average assets,

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

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

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

Interest margin on total assets, calculated as the ratio of net interest income to average assets, was 1.8%, compared with 1.9% in 2020. The decrease was mainly attributable to lower interest rates on loans.

The cost/income ratio was 62.7% in 2021, compared with 60% in 2020, with the increase caused by higher administrative expenses.

Capital ratios

	2021	2020	Change, percentage points
Common equity Tier 1 capital ratio	13.38	13.17	0.21
Common equity Tier 1 capital ratio – net of the effect of IFRS 9 transitional provisions	12.88	12.56	0.32
Tier 1 capital ratio	13.38	13.17	0.21
Tier 1 capital ratio – net of the effect of IFRS 9 transitional provisions	12.88	12.56	0.32
Total capital ratio	14.80	14.98	-0.18
Total capital ratio – net of the effect of transitional provisions	14.31	14.38	-0.07

As at December 31st 2021, the minimum capital ratios recommended by the Polish Financial Supervision Authority were 9.0% for Tier 1 capital ratio and 11.16% for the TCR ratio.

The capital adequacy ratio of the Bank as at December 31st 2021 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional solutions.

2.2. Statement of financial position of the Bank

Total assets of the Bank as at December 31st 2021 were PLN 20,450.0 million, having increased by 0.7% compared to year-end 2020.

As at December 31st 2021, at 58.1%, amounts due from clients had the highest share in total assets. The share fell by 0.5 percentage point on year-end 2020. The share of investment securities also fell, by 1.6 percentage points. The share of amounts due from other banks increased by 1.2 percentage points, and of cash and balances with central bank - by 0.5 percentage point.

Assets of the Bank, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Cash and balances with central bank	361,564	266,532	35.7
Amounts due from banks	390,452	142,015	174.9
Financial assets held for trading	119,310	79,827	49.5
Derivative hedging instruments	9,121	-	x
Investment securities:	7,108,931	7,371,414	-3.6
Amounts due from clients, including:	11,872,238	11,891,853	-0.2
measured at amortised cost	11,858,127	11,866,339	-0.1
measured at fair value through profit or loss	14,111	25,514	-44.7
Investments in subsidiaries	199,371	193,803	2.9
Intangible assets	99,793	99,484	0.3
Property, plant and equipment	39,322	38,429	2.3
Right of use – leases	72,671	63,482	14.5
Tax assets:	144,947	124,127	16.8
Other assets	32,248	27,896	15.6
TOTAL ASSETS	20,449,968	20,298,862	0.7

Amounts due from clients

Amounts due from clients, PLN thousand	2021	2020	Change (%)
Measured at amortised cost	11,822,721	11,832,036	-0.1
Amounts due from retail clients	3,274,642	3,461,023	-5.4
overdraft facilities	224	327	-31.5
cash loans	300,926	364,300	-17.4
housing loans	2,728,093	2,845,873	-4.1
other credit facilities	245,399	250,523	-2.0
Amounts due from institutional clients	8,548,079	8,371,013	2.1
working capital facilities	648,741	518,707	25.1
term facilities	6,927,311	7,350,810	-5.8
factoring receivables	599,966	331,450	81.0
lease receivables	-	-	-
purchased receivables	127,311	96,123	32.4
commercial paper	244,750	73,923	x
Measurement at fair value through profit or loss	14,111	25,514	-44.7
Amounts due from retail clients	651	1,192	-45.4
housing loans	257	427	-39.8
other credit facilities	394	765	-48.5
Amounts due from institutional clients	13,460	24,322	-44.7
working capital facilities	19	39	-51.3
term facilities	13,441	24,283	-44.6
Total	11,836,832	11,857,550	-0.2
Security deposits	32,768	31,704	3.4
Other amounts due from clients	2,638	2,599	x
TOTAL AMOUNTS DUE FROM CLIENTS	11,872,238	11,891,853	-0.2

The carrying amount of amounts due from clients of the Group at the end of 2021 was PLN 11,872.2 million, a decrease of 0.2% on December 31st 2020.

As at the end of 2021, amounts due from retail clients measured at amortised cost decreased on year-end 2020 by PLN 186.4 million, or 5.4%, mainly due to a decrease in housing and cash loans. Amounts due from institutional clients measured at amortised cost increased by PLN 177.1 million, or 2.1%.

Amounts due from institutional clients measured at amortised cost accounted for the highest share of total amounts due from clients, at 72.0%. Their share increased by 1.6 percentage points on year-end 2020. Amounts due from institutional clients measured at amortised cost were PLN 8,548.1 million.

The share of amounts due from retail clients measured at amortised cost in total amounts due decreased by 1.5 percentage points, to 27.6%. The amount of retail loans measured at amortised cost was PLN 3,274.6 million at year-end 2021, compared with PLN 3,461.0 million at year-end 2020.

Lending products sold in the reporting period

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

Quality of the Bank's loan portfolio	December 31st 2021	%	December 31st 2020	%
Amounts due from clients measured at amortised cost				
Amounts due from clients with no indication of impairment, including:	11,194,022	86.6	10,991,922	84.4
exposures without significant credit risk increase since initial recognition (Bucket 1)	9,877,442	76.4	8,520,818	65.4
exposures with significant increase in risk since initial recognition (Bucket 2), including:	1,316,580	10.2	2,471,104	19.0
wind farms	49,790	0.4	1,168,694	9.0
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows, including:	21,754	0.2	358,808	2.8
wind farms	12,842	0.1	241,329	1.9
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,715,462	13.3	1,677,430	12.9
wind farms	-	0.0	13,434	0.1
Total amounts due from clients measured at amortised cost (gross)	12,931,238	100.0	13,028,160	100.0
Impairment losses on:				
amounts due from clients – (Bucket 1)	- 88,461		-85,011	
amounts due from clients – (Bucket 2), including:	- 81,079		-128,655	
wind farms	- 1,304		-30,947	
amounts due from clients – (Bucket 3) with no indication of impairment, including:	- 588		-11,097	
wind farms	- 504		-9,586	
amounts due from clients – (Bucket 3) with indications of impairment, including:	- 938,389		-971,361	
wind farms	-		-1,578	
Total impairment losses	- 1,108,517		-1,196,124	
Total amounts due from clients measured at amortised cost (net)	11,822,721	91.4	11,832,036	90.8
Amounts due from clients measured at fair value through profit or loss				
Fair value, including:	14,111		25,514	
wind farms	-		-	
Total amounts due from clients measured at fair value through profit or loss	14,111		25,514	
Security deposits	32,768		31,704	
Other amounts due from clients	2,638		2,599	
Total amounts due from clients	11,872,238		11,891,853	

At year-end of 2021, impairment losses were PLN 1,108.5 million.

The share of amounts due from clients with indications of impairment in the entire portfolio measured at amortised cost was 13.3% as at December 31st 2021, compared with 12.9% as at year-end 2020.

Equity and liabilities of the Bank

As at the end of 2021, amounts due to clients represented the largest share (83.2%) of total equity and liabilities. The share increased by 1.6 percentage points on December 31st 2020. The share of provisions also increased, by 0.1 percentage point. The share of amounts due to central bank and other banks fell by 1.6 percentage points. The share of equity in total equity and liabilities decreased by 0.3 percentage point on year-end 2020.

Equity and liabilities of the Bank, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Amounts due to central bank and other banks	420,389	732,743	-42.6
Derivative financial instruments held for trading	93,879	97,410	-3.6
Derivative hedging instruments	0	24,497	-100.0
Amounts due to clients	17,012,146	16,553,777	2.8
Liabilities arising from issue of bank securities	-	-	x
Subordinated liabilities	369,107	368,996	0.0
Provisions	444,594	415,070	7.1
Tax liabilities	7,433	-	x
Lease liabilities, IFRS 16	75,314	66,733	12.9
Other liabilities	162,817	129,230	26.0
Total equity	1,864,289	1,910,406	-2.4
TOTAL EQUITY AND LIABILITIES	20,449,968	20,298,862	0.7

Sources of funding of the Bank

As at December 31st 2021, the Bank's amounts due to clients were PLN 17,012.1 million, having increased by 2.8% on year-end 2020. Amounts due to institutional clients increased by PLN 1,655.1 million, or 22.8%, relative to year-end 2020. Amounts due to retail clients decreased by PLN 1,017.2 million, or 12.1%. Liabilities under borrowings from International Financial Institutions decreased by PLN 204.8 million, or 28.6%.

Amounts due to clients, PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Retail clients	7,397,756	8,414,930	-12.1
current/checking accounts	3,824,753	4,240,548	-9.8
term deposits	3,573,003	4,174,382	-14.4
Institutional clients	8,917,630	7,262,493	22.8
current/checking accounts	7,372,660	6,080,790	21.2
term deposits	1,544,970	1,181,703	30.7
Other clients	87,729	74,763	17.3
Borrowings from international financial institutions	510,954	715,708	-28.6
Lending support funds	98,077	85,883	14.2
TOTAL AMOUNTS DUE TO CLIENTS	17,012,146	16,553,777	2.8

2.3. Contingent assets and contingent liabilities of the Bank

Contingent assets and contingent liabilities of the Bank , PLN thousand	December 31st 2021	December 31st 2020	Change (%)
Contingent liabilities:	3,370,486	2,956,784	14.0
Financial, including:	2,920,453	2,583,937	13.0
open credit lines, including:	2,899,502	2,558,517	13.3
revocable	2,443,944	2,223,974	9.9
irrevocable	455,558	334,543	36.2
open import letters of credit	20,951	20,250	3.5
loan commitments, including:	-	5,170	-100.0
irrevocable	-	5,170	-100.0
guarantees, including:	450,033	372,847	20.7
credit repayment sureties and guarantees	12,739	12,739	0.0
performance bonds	437,294	360,108	21.4
Contingent assets:	2,126,300	899,975	136.3
Financial, including:	344,955	-	x
open lines of credit	344,955	-	x
guarantees	1,781,345	899,975	97.9

Total contingent liabilities of the Bank as at December 31st 2021 were PLN 3,370.5 million, including financial liabilities of PLN 2,920.5 million. As at December 31st 2021, outstanding guarantees provided by the Bank, disclosed off-balance sheet, were PLN 450.0 million.

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

3. Difference between financial forecasts and actual results

The BOŚ Group did not publish any financial forecasts.

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

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

As at the date of authorisation of these financial statements for issue, there were no circumstances that would indicate a threat to the Bank's or the Group companies' ability to continue as going concerns for at least 12 months after the reporting date as a result of deliberate or compulsory discontinuation or limitation of their existing activities (for more information, see Note 4.4. to the full-year consolidated financial statements of the BOŚ Group for the year ended December 31st 2021).

IV. RISK MANAGEMENT AT THE GROUP

1. Credit risk

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

- The efforts to improve the quality of the loan portfolio focused on maintaining a policy of moderate risk appetite to achieve a risk cost close to the average for the sector.
- In order to improve the structure of the loan portfolio, the Bank continued efforts to reduce individual exposures and concentration risk.

In June 2021, the Bank adopted development strategy for 2021-2023. In corporate banking, the Bank will focus on serving medium-sized and large companies and local governments by offering lending products that support green transformation. The offer for retail clients also remains focused on financing green investments.

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

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

- could pose a risk to its reputation,
- may cause risk-bearing debt of one entity or entities with equity or organisational links to exceed concentration levels provided in external regulations,
- would violate the provisions of the Environmental Protection Law or be a potential source of damage to the natural environment,
- would be effected for clients without reliable, fixed and stable income.

The Bank made lending decision conditional on:

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

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

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

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

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

The assessment process took into account the provisions of Recommendations T and S of the PFSA, in particular with respect to the levels of Dtl/DStI and LtV ratios.

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

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

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

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

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

The transaction was assessed in particular on the basis of an assessment of the purpose of the financing, the facility term and the value of the collateral. The Bank established such financing structures as to ensure risk sharing between the borrower and the Bank, primarily by having the borrower commit their own funds appropriate to the risk involved.

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

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

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

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

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

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

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

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

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

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

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

The Bank preferred collateralised transactions, with the proviso that in the retail segment the maximum amount of unsecured transactions was determined taking into account features of the lending products, the client

segment, the impact of such transactions on the Bank's profit or loss and the amount of potential losses.

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

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

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

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

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

In order to mitigate the negative impact of economic consequences of the COVID-19 pandemic on the quality of the loan portfolio, the Bank applies specific client financing and monitoring measures, with particular focus on clients those operating in sectors which, in the opinion of the Bank, remain the most vulnerable to effects of the pandemic.

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

- individual client and transaction,
- the loan portfolio.

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

In connection with the entry into force on June 28th 2021 of Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20th 2019 amending Regulation No 575/2013, the Bank introduced a new definition of large exposure and adjusted the level of maximum exposure to a client or group of connected clients to the value of Tier 1 capital.

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

In particular, the Bank applied the following limits:

- geographical limits – limit of exposure to other countries;
- product-specific limits – e.g., maximum LTV;
- limits for the portfolio of mortgage loans and loans financing real property – in compliance with the PFSA Recommendations,
- limits for selected sectors of the economy,
- limits concerning the share of foreign currency loans in the Bank's portfolio,
- limits for the aggregate exposure to related entities/groups of related entities with respect to which the Bank's exposure exceeds 10% of the Bank's eligible capital,
- limits for the aggregate exposure to related entities/groups of related entities, depending on the rating of the related entity/group of related entities,
- the total exposure to the Bank's subsidiaries.
- limit for exposures under credit transactions to which special funding rules were applied in connection with the COVID-19 pandemic,
- limit for transactions with derogation from the credit rules set out in internal procedures that result in increased credit risk.

In the concentration risk management process, the Bank used a warning level system that applied to all internal limits for credit risk.

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

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

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

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

2. Financial risk

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

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

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

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

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

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

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

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

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

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

In 2021, the Group monitored the economic and market situation associated with the COVID-19 pandemic and analysed its impact on financial risks, including the market and liquidity risks. Although the levels of individual risks have increased compared to the pre-pandemic period, they have generally remained within the limits adopted by the Group.

In 2021, the main objectives, principles and organisation of the financial risk management process at the Group did not change. The level and profile of financial risk are monitored on a regular basis by the Financial and Operational Risk Department (2nd line of defence) of the Bank and by the Risk Management Department of DM BOŚ S.A. and reported to The Bank's Supervisory Board, the Supervisory Board of DM BOŚ S.A., the Risk Committee (at the Supervisory Board of the Bank), the Management Board of the Bank, the Management Board of DM BOŚ S.A., the Committee of Assets and Liabilities Management (ALCO) and the ALCO Liquidity and Market Risk Committee (ALCO LMRC).

2.1. Liquidity risk

The purpose of liquidity management by the Group is to maintain the ability to finance assets and pay liabilities in a timely manner and to maintain a sustainable structure of assets and liabilities, which ensures a safe liquidity profile in specific time bands, split into liquidity in PLN and the main foreign currencies, but mostly – for the total liquidity position.

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

The liquidity risk tolerance, adjusted to the Bank's risk appetite through a system of internal limits and warning values, is set out in the Liquidity Management Policy approved by the Supervisory Board.

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

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

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

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

1. the level of intraday liquidity – reflects the level of funds required to be maintained in the Bank's account with the National Bank of Poland to enable the Bank to pay its liabilities during the day, in both normal and stress situations,
2. liquid assets (excess liquidity) – a buffer for expected and unexpected outflows over a period of 30 days,
3. liquidity reserve – which measures the level of liquid assets less expected and unexpected outflows, determined for a period of 30 days, including a concentration margin,
4. net liquidity coverage ratio (%)
5. assessment of the stability of the deposit base,
6. short-term liquidity gap (for PLN, EUR, CHF and USD) – showing the level of mismatch in foreign currency funding structures; the gap consists primarily of flows from wholesale and derivatives transactions,
7. stress tests (which enable the Bank to, among other things, verify its ability to maintain liquidity in a defined time horizon under particular scenarios).

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

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

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

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

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

Overall liquidity risk profile

The main source of funding for the Bank continues to be a systematically built and diversified deposit base with a share of stable retail deposits (and deposits from corporate clients and the public sector), followed by loans from

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

The Bank's liquid assets (excess liquidity) are primarily held in the form of highly liquid NBP bills (as at December 31st 2021, representing 51% of the liquid portfolio of unsecured securities) and Treasury bonds (December 31st 2021: 48%), posing a low specific risk. The portfolio of these securities is supplemented with cash and funds held with the National Bank of Poland (above the declared obligatory reserves) and in nostro accounts with other banks. As at 31 December 2021, the amount of liquid assets was PLN 5,682 million. Liquid assets constitute a buffer to secure liquidity in potential crisis situations, i.e., they can be pledged, liquidated under repo transactions or sold at any time without significant loss of value. The Bank's ability to sell liquid assets (product liquidity risk) is monitored on a regular basis. The primary considerations in these analyses are issue size, market turnover, and bid/ask price volatility.

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

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

Measures of liquidity risk

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

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

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

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

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

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

In 2021, as in 2020, the supervisory liquidity measures, i.e., LCR and M3-M4, were calculated daily (i.e., every working day), and remained at a safe level, significantly above the regulatory levels. The NSFR was monitored on a monthly basis in the first half of 2021 and on a daily basis as of June 30th 2021. As at December 31st 2021, these measures were as follows:

Metric*	December 31st 2021	December 31st 2020
M3	47.78	54.72
M4	1.40	1.41
LCR	141%	131%
NSFR	133%	104%

*M3 and M4 refer to the Bank, and LCR and NSFR – to the Group.

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

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

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

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

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

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

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

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

Internal stress tests performed in 2021, as in 2020, demonstrated that the Bank had a stable liquidity position and its liquid assets (excess liquidity) allowed it to survive the stress test scenarios in which the Bank assumed survival over a certain period of time.

In 2021, as in 2020, the Group's liquidity position was monitored on a regular basis and remained safe.

2.2. Interest rate risk

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

Interest rate risk in the banking book

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

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

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

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

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

Measures of interest rate risk in the banking book

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

The following table provides a comparison of the NII and EVE measures between December 31st 2021 and December 31st 2020:

Date	ΔNII		ΔEVE	
	-100 bps	+100 bps	-200 bps	+200 bps
December 31st 2021	-68,395	41,247	84,372	-102,232
December 31st 2020	-95,408	39,378	67,413	-98,089
Change	27,013	1,869	16,959	-4,143

In 2021, both NII and EVE were within limit/at warning levels consistent with the risk appetite approved by the Supervisory Board. Changes in the values of these measures have a certain cyclical nature, which is due to the regular approximation of the timing of the repricing of floating rate positions and the maturity of fixed rate positions. The lower sensitivity of net interest income in 2021 to a 100 bps decrease in market interest rates was caused, among other factors, by three interest rate increases by the Monetary Policy Council in the fourth quarter, which resulted in a decision by the Bank to increase interest rates on term deposits and savings accounts towards the end of 2021. The asymmetrical impact of interest rate movements on NII in the scenarios of falling and rising interest rates results from the characteristics of interest rates on specific items sensitive to interest rate movements, including reduction of interest rates on certain sources of financing to 0%, under the conditions of the analysed market interest rate movements (i.e. by -100 bps). The increase in sensitivity of EVE to interest rate hikes was attributable, among other factors, to a fall in retail deposits and an increase in the balance of corporate bonds.

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

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

	ΔEVE in a given SOT scenario					
	Parallel upward shift of the interest rate curve	Parallel downward shift of the interest rate curve	steepener shock ¹	flattener shock ²	short rates shock up ³	short rates shock down ³
December 31st 2021	-81,118	21,719	5,598	-64,604	-89,159	5,843
December 31st 2020	-102,510	35,478	-2,987	-64,288	-94,813	3,316
Change	21,392	-13,759	8,585	-316	5,654	2,527

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

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

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

The results of the SOT analysis indicate that as at year-end 2021 the Bank was most vulnerable to a decline in the economic value of equity (EVE) in the shock up scenario for short-term rates (Short Up). This is a change from the previous year – at year-end 2020, the most severe scenario was the parallel shock up (Parallel Up) scenario. The sensitivity of the economic value of the Bank's equity in the two most severe scenarios (i.e. Short Up and Parallel Up) decreased relative to 2020. In all scenarios, the level of sensitivity of the economic value of equity is clearly below the supervisory warning levels, which indicates low exposure to the interest rate risk.

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

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

The Bank also conducts reverse tests:

- for the EVE – tests of the impact of changes in market factors, the purpose of which is to show when the sensitivity of the EVE falls below 20% of equity,
- for the NII:
 - tests to show when the projected interest income falls below zero,
 - tests designed to identify areas of vulnerability to risks arising from collateral and risk management strategies and behavioural responses of clients.

The results of the stress test as at December 31st 2021 show that, in extremely adverse market conditions and the Bank's increased exposure to instruments sensitive to interest rate risk, the banking book risk remained at a safe level.

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

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

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

Interest rate risk in the trading book

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

Measures of interest rate risk in the trading book

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

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

In 2021, there were no significant changes in the techniques applied to measure the interest rate risk of the Bank's trading book.

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

Date	10-day VaR				Stress tests ± 200 bps
	mean	max	min	as at	as at
December 31st 2021	249	822	49	373	-1,018
December 31st 2020	521	1,511	55	68	-1,387

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

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

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

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

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

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

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

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

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

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

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

The three rate increases by the Monetary Policy Council made in response to the COVID-19 pandemic did not lead to any material increase in the interest rate risk in the trading book. The interest rate risk metrics in the trading book was monitored on an ongoing basis.

2.3. Currency risks

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

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

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

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

currency risk is managed within the limit of the total currency position for the trading book and the non-trading book.

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

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

The BOŚ Group has a consistent currency risk management system, with the risk calculated separately for the Bank and DM BOŚ S.A.

Measures of currency risk

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

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

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

Date	10-day VaR						Stress tests of the Group – increase/decrease of foreign exchange rates by 30%
	Bank				DM	Group	
	mean	max	min	as at	as at	as at	
December	276	1,700	16	560	2,049	1,843	-1,937
December	230	966	8	259	2,498	2,756	-7,127

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

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

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

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

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

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

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

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

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

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

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

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

2.4. Other market risks

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

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

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

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



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

3. Operational risk and compliance risk

3.1. Operational risk

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

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

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

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

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

As part of measures aimed at streamlining the organization of the operational risk management at the Bank, in 2021, the Operational Risk Management Policy and Rules at BOŚ S.A. were reviewed and amended to verify the effectiveness of the system. The rules of determining the capital requirement for operational risk in accordance with the standardised approach were also reviewed and amended.

The Bank continues to include every new employee in the obligatory e-learning training on operational risk management at the Bank.

In 2021, a number of tasks were completed as part of the risk management system organisation efforts, including:

- appetite and operational risk tolerance limits for 2021 were reviewed and approved,
- utilisation of applicable limits was monitored periodically,
- the Operational Risk Map for 2021 was developed on the basis of self-assessments made by the organisational units of the Bank's Head Office,
- assessment was made of the significance of subsidiaries in the Group in terms of generated operational risk,
- operational risk stress tests were conducted,
- Key Risk Indicators (KRIs) for operational risk were reviewed,
- a comprehensive review of the application supporting operational risk management at the Bank was carried out in order to improve it and introduce functionality changes for the users.

The Bank also focused its activities on raising the employees' awareness of operational risk. To this end, an information campaign was launched on the most important issues related to operational risk in the Bank,

addressed to all Bank employees, the Principle of Risk Culture were developed, and an operational risk webinar was organised for Bank employees.

In 2021, in terms of operational risk, there were no non-recurring events generating extraordinary and unanticipated losses that would materially affect the safety of the Bank's and the Group's operations. No significant COVID-19-induced operational risks were identified. Operational risk events were investigated and measures aimed to reduce potential losses were implemented. The most significant operational risk factor affecting the level of this risk in 2021 were court cases filed by the Bank's clients and related to mortgage loans denominated and indexed to foreign currencies. Accordingly, the Bank prepared and launched on January 31st 2022 the Compromise and Settlement Programme for clients holding mortgage loans denominated and indexed to foreign currencies.

3.2. Compliance risk

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

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

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

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

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

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

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

The compliance unit also manages anonymous reporting of violations of law and ethical procedures and standards followed by Bank Ochrony Środowiska S.A.

The Bank identifies the following key compliance areas:

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

In 2021, there were no events which would have a material impact on the level of compliance risk, and the Bank focused its efforts on preventing the occurrence of compliance risk, with particular focus on preventing money laundering and terrorist financing.

IV. ADDITIONAL INFORMATION

1. Assessment of financial resources management

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

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

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

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

2. Dependence on partners

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

3. Related-party transactions

Related party transactions are described in Note 51 to the full-year consolidated financial statements of the BOŚ Group for the financial year ended December 31st 2021.

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

4. Seasonal or cyclical nature of the business

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

5. The Bank's agreements

5.1. Significant agreements

In 2021, the Bank did not enter into any significant agreement.

5.2. Agreements with the Central Bank and regulatory bodies

On November 18th 2021, the Bank concluded an Agreement with the NBP regarding the terms and conditions of opening and maintaining a euro account in the TARGET2-NBP system.

5.3. Contracts for audit of financial statements

Body selecting the independent auditor

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

Contract with the independent auditor

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

On April 19th 2021, the contract was amended to include assurance services. As part of the assurance engagement, the auditor is to express an opinion on the compliance of the consolidated financial statements with the requirements of the Regulation on the regulatory technical standards of the specifications of the single electronic reporting format (ESEF).

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

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

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

5.4. Auditor's fee

Fees of Mazars Audyt Sp. z o.o., the auditor appointed to audit the financial statements, paid or due for the fiscal year 2021 are presented below (at net amounts).

1. BOŚ S.A.

Review of the (separate and consolidated) financial statements for the first half of 2021	PLN 114 thousand
Audit of the full-year (separate and consolidated) financial statements for 2021	PLN 372 thousand
Other services*	PLN 101 thousand

2. Dom Maklerski BOŚ S.A.

Audit of the full-year financial statements for 2021	PLN 60 thousand
Review of the financial statements for the first half of 2021	PLN 23 thousand
Other services*	PLN 12 thousand

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

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

Fees of Mazars Audyt Sp. z o.o., the auditor appointed to audit the financial statements, paid or due for the fiscal year 2020 are presented below (at net amounts).

1. BOŚ S.A.

Review of the (separate and consolidated) financial statements for the first half of 2020	PLN 114 thousand
Audit of full-year (separate and consolidated) financial statements for 2020	PLN 322 thousand
Other services*	PLN 21 thousand

2. Dom Maklerski BOŚ S.A.

Audit of the full-year financial statements for 2020	PLN 42 thousand
Review of the financial statements for the first half of 2020	PLN 23 thousand
Other services*	PLN 12 thousand

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

Audit of the full-year financial statements for 2020	PLN 58 thousand
Review of the financial statements for the first half of 2020	PLN 31 thousand

*Other services:

- Assurance service consisting in expressing an opinion on the compliance of the consolidated financial statements prepared in a single electronic reporting format with the ESEF requirements.
- Assurance service consisting in expressing an opinion on the compliance of qualitative and quantitative information on capital adequacy of the BOŚ Group with the requirements of the CRR Directive.
- Attestation service consisting in the evaluation by the auditor of the remuneration report with respect to the compliance of the report's contents with the requirements of the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies.
- Limited assurance service, including assessment of compliance of DM BOŚ S.A. with the requirements for custody of clients' assets.

6. Non-recurring factors and events

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

- COVID-19 pandemic – impact primarily through decisions of the Monetary Policy Council to reduce interest rates by a total of 140 basis points in 2020, which translated into a material deterioration in the Bank's net interest income in 2020 and 2021.
- Significant increase in the number of court cases related to loans denominated in CHF. On January 31st 2022, the Bank launched the Compromise and Settlement Programme for clients repaying foreign currency-linked mortgage loans under rules proposed by the Chairman of the Financial Supervision Commission.

In 2021, there were no other events at the Bank that would be material for the assessment of its human resources, assets, financial position, financial result and any changes thereto, as well as for the assessment of the Bank's ability to fulfil its obligations.

7. Court proceedings

Lawsuits – total

As at December 31st 2021, Bank Ochrony Środowiska S.A. was:

- a claimant in 1,381 lawsuits for a total amount of: PLN 108.79 million,
- a respondent in 724 lawsuits for a total amount of: PLN 212.16 million.

As at December 31st 2021, the Bank was not involved in any material proceedings pending before any court, arbitration body or public administration authority where the amount of the Bank's liabilities or claims would represent at least 10% of the Bank's equity.

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

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

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

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

As at December 31st 2021, four court proceedings were pending against the Bank for reimbursement of consumer credit costs on account of early repayment.

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

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

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

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

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

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

On May 7th 2021, the Supreme Court, sitting in a panel of seven judges, adopted a resolution in response to questions posed by the Financial Ombudsman, and reiterated the position that if a credit agreement is found invalid, each party is entitled to a separate claim for reimbursement of the performance obligation rendered and indicated that the agreement may be deemed definitively ineffective only if the consumer is duly informed of the effects of the agreement's invalidity and does not agree to be bound by the provision deemed abusive. The questions put forward by the Financial Ombudsman overlapped only to some extent with the questions submitted to the Supreme Court by the First President of the Supreme Court. So far the full panel of judges of the Civil Chamber of the Supreme Court has not passed a resolution that would answer all the questions raised by the First President of the Supreme Court. The session of the Civil Chamber of the Supreme Court was set for May 11th 2021 (previously scheduled for March 25th 2021 and then April 13th 2021). However, the Supreme Court did not adopt the announced resolution by the specified dates, and requested the Ombudsman, the Children's Rights Ombudsman, the Office of the Banking Supervision Authority and the Governor of the National Bank of Poland to present their positions as to the directions of resolving the legal issues presented by the First President of the Supreme Court. The positions were presented to the Supreme Court. At the next meeting of the full bench of the Civil Chamber held on September 2nd 2021, no substantive resolutions were adopted. A decision was made to refer questions to the Court of Justice of the European Union concerning the rules governing the appointment and disciplinary responsibility of judges. Turning to the CJEU with request for preliminary rulings on constitutional issues means that the next session of the entire Chamber will probably take place not earlier than in over ten

months. At the same time, by order of July 29th 2021, the three-judge panel of the Supreme Court submitted to the extended panel of the Supreme Court (seven judges) a legal question related to issues of compensation for the use of capital. The date of the hearing has not been set.

As at December 31st 2021, there were 664 court cases pending against the Bank, concerning loans tied related to foreign currencies, mainly CHF, with the total value of claims of PLN 199.91 million. In general, the claimants demand that loan agreements denominated in foreign currencies be recognised as invalid or, alternatively, that the denomination (currency translation) clauses be found/ruled abusive.

8. Changes in significant management policies

In 2021, there were no changes in significant management policies at the Bank.

9. Information about dividend

No dividend was paid or declared in 2021.

10. Value of collateral

As at the end of 2021, the value of significant collateral other than blank promissory notes and assignment of an insurance policy for movable or non-movable property amounted to PLN 28,134.3 million. Real estate mortgages remain the most important type of collateral (PLN 13,138.3 million, or 46.7%). The amount of pledges was PLN 8,268.3 million, or 29.4% of the total value of collateral. The amount of guarantees and sureties was PLN 5,070.6 million, or 18.0% of the total value of collateral. The amount of assignments of receivables by counterparties based in an OECD-member country was PLN 1,178.4 million, or 4.2% of the total value of collateral. Other types of collateral did not exceed 1.0% of the total value of collateral.

11. Events after the reporting date

Compromise and Settlement Programme

On January 31st 2022, the Bank launched the Compromise and Settlement Programme for clients repaying foreign currency-linked mortgage loans under rules proposed by the Chairman of the Financial Supervision Commission. For more information on the Programme, see Note 3 to the financial statement of the Bank for the year ended December 31st 2021. Compromise and Settlement Programme for residential mortgage-backed loans tied to foreign currency exchange rates.

The launch of the Programme does not require any adjustments to the 2021 financial statements.

PFSA's recommendation concerning additional capital requirement for the Bank

On February 10th 2022, the Bank received a recommendation from the Polish Financial Supervision Authority that Bank Ochrony Środowiska S.A. should maintain, both on a separate and consolidated basis, own funds to cover the additional capital add-on to absorb potential losses resulting from the occurrence of stress conditions, at the level of 0.38 pp above the total capital ratio referred to in Article 92(1)(c) of Regulation No 575/2013, increased by the additional own funds requirement referred to in Article 138.2.2 of the Banking Law and by the combined buffer requirement referred to in Article 55.4 of the Macroprudential Supervision Act. (see Current Report No. 2/2022 of February 11th 2022). The additional add-on should consist entirely of Common Equity Tier 1 capital.

Armed conflict in Ukraine

On February 24th 2022, Ukraine was attacked by Russian armed forces. As a result, a number of countries and international organisations imposed economic sanctions on Russia and Belarus.

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

The stress tests' results show a modest increase in exposure to liquidity risk, interest rate risk in the banking book, and counterparty credit risk; however the overall impact on risk remains at the acceptable level.

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

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

The Bank continuously monitors clients likely to be adversely affected by the political and economic situation in Ukraine. A comprehensive assessment of the overall impact of the events is not possible as of the date of the Directors' Report; however, no adverse effects have been observed to date. As regards possible future impacts, no significant changes in the situation of clients relevant for the Bank's credit portfolio risks and capital adequacy have been identified.

Cyber security is ensured by 24/7 monitoring of cyberspace events by the Bank's Security Operation Centre. The Bank actively engages in the activities of the financial sector groups sharing information on current international events. In recent weeks, BOŚ S.A. has seen a significant increase in the number of attempted attacks on the Bank's electronic banking services. Most frequently, those were attempts to break through the security systems, using known vulnerabilities. No successful security breach has been identified. The Bank has not reported any confirmed DDoS (distributed denial-of-service) attacks against its online banking services, either.

V. CORPORATE GOVERNANCE STATEMENT

1. Corporate governance principles

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

(This statement has been prepared in accordance with Art. 70.6.5 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018).

In the first half of 2021, companies listed on the WSE were subject to the corporate governance principles set out in the Best Practice of GPW (WSE) Listed Companies 2016. With the beginning of July 2021, these were replaced with the reviewed corporate governance principles set out in the Best Practice of 2021.

In 2021, BOŚ S.A. applied the corporate governance principles set out in the Best Practice of GPW (WSE) Listed Companies 2016, attached as an appendix to Resolution 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange (GPW) of October 13th 2015 and, from July 1st 2021 onward, the principles set out in the Best Practice of GPW (WSE) Listed Companies 2021, attached as an appendix to Resolution 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange of March 29th 2021. Exceptions to the application of the principles are described in section 1.2.

The scope of application of the governance principles has been specified in Resolution 20/2016 of the Ordinary General Meeting of BOŚ S.A. of June 23rd 2016 on the scope of application by BOŚ S.A. of the governance principles set out in Best Practice of GPW (WSE) Listed Companies 2016. The information on the Bank's compliance with the recommendations and principles set out in the Best Practice for GPW (WSE) Listed Companies 2016 was published in the Current Report of June 24th 2016.

The WSE conducts periodic reviews of its corporate governance principles, amending them as necessary. The principles set out in the Best Practice for GPW (WSE) Listed Companies 2016 were in force until June 30th 2021. Following the review performed by the Corporate Governance Committee, new corporate governance principles were drawn up as the Best Practice for GPW (WSE) Listed Companies 2021, in force from July 1st 2021.

On June 23rd 2021, the Ordinary General Meeting of BOŚ S.A. adopted a resolution on the scope of application by BOŚ S.A. of the corporate governance principles set out in Best Practice for GPW (WSE) Listed Companies 2021. The information on the Bank's compliance with the recommendations and principles set out in the Best Practice for GPW (WSE) Listed Companies 2021 was published in Current Report of July 21st 2021.

The Best Practice for GPW (WSE) Listed Companies 2016 and Best Practice for GPW (WSE) Listed Companies 2021 along with the information on the Bank's compliance with the recommendations and principles contained therein are available in the 'Investor Relations' section, 'Corporate Governance' tab, on the Bank's website <https://www.bosbank.pl/informacje-korporacyjne/relacje-inwestorskie/lad-korporacyjny>. The section also contains Corporate Governance Statements of BOŚ S.A. concerning preceding years.

Moreover, in performance of Resolution 218/2014 of the Polish Financial Supervision Authority of July 22nd 2014, the Principles of Corporate Governance for Supervised Institutions were approved by the Bank's following governing bodies:

by the Management Board of BOŚ S.A. in Resolution 108/2018 of May 8th 2018 on adopting the Principles of Corporate Governance for Supervised Institutions, issued by the Polish Financial Supervision Authority;

by the Supervisory Board of BOŚ S.A. in Resolution 31/2018 of May 16th 2018 on the scope of application by the Supervisory Board of BOŚ S.A. of the Principles of Corporate Governance for Supervised Institutions, issued by the Polish Financial Supervision Authority;

by the General Meeting of BOŚ S.A. in Resolution 28/2018 of the Annual General Meeting of BOŚ S.A. of June 19th 2018 on adopting the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority for application by BOŚ S.A.

The information on adopting by BOŚ S.A. the Principles of Corporate Governance for Supervised Institutions, issued by the Polish Financial Supervision Authority, is provided in the 'Investor Relations' section, 'Corporate Governance' tab, on the Bank's website.

1.2. Information on waiver of certain corporate governance principles set forth in the Best Practice for GWP (WSE) Listed Companies 2016, Best Practice for GWP (WSE) Listed Companies 2021 and Principles of Corporate Governance for Supervised Institutions issued by the PFSA.

BOŚ S.A. reported a waiver of the following corporate governance principles prescribed in Resolution 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board of October 13th 2015:

- I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:
 - I. Z.1.15. information on the diversity policy applicable to the company's governing bodies and key managers; the description should cover the diversity policy elements such as gender, education, age, professional experience, and specify the goals of the diversity policy and the manner of its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should explain the reasons for the decision on its website.

Bank's comments: Diversity principles applicable to employees (including key managers) are included in the Work Rules of BOŚ S.A., however, no such arrangements are in place with respect to the Bank's governing bodies.

Pursuant to item I.Z.1.15 of the Best Practice for GPW Listed Companies 2016, the reasons for waiver of principle I.Z.1.15 by BOŚ S.A. has been published in the 'Investor Relations' section, 'Corporate Governance' tab, on the Bank's website (www.bosbank.pl).

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

Bank's comments: Principle IV.Z.2 is not applied by the Bank due to its shareholding structure, and for technical and organisational reasons. In the Bank's opinion, the present rules on participation in general meetings enable shareholders to effectively exercise all their rights attached to shares and secure the interests of all shareholders.

With growing availability of this form of participation by shareholders in general meetings among listed companies, the Bank has undertaken steps with a view to applying this corporate governance principle.

The principles set out in the Best Practice for GPW (WSE) Listed Companies 2016 were in force until June 30th 2021. The WSE Corporate Governance Committee has redrafted the corporate governance principles and issued the Best Practice for GPW (WSE) Listed Companies 2021, effective from July 1st 2021. On July 21st 2021, the Bank published a report on the application of the principles set out in the Best Practice for GPW (WSE) Listed Companies 2021. The Bank updated information on the application of the principles set out in the Best Practice for GPW (WSE) Listed Companies 2021 during the year.

As at the end of 2021, the Bank reported waiver of the following eight principles included in the Best Practices for GPW (WSE) Listed Companies 2021:

- 1.4.1. The information on the ESG elements of the strategy should, among other things, explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks;

Bank's comments: The Bank's credit risk management policy prevents the Bank from effecting transactions with clients whose activity causes irreversible environmental damage, while it can be replaced with a more environmentally-friendly solution, unless the purpose of financing is to mitigate environmental hazard. Being fully aware of the need to account for environmental, social and corporate governance (ESG) factors in risk management and investment policies, the Bank also engages in initiatives supporting global climate change mitigation targets. Based on a sectoral approach, the Bank develops financing solutions for entities operating in industries seen by the Bank as having strong potential, in particular the green sector initiatives in support of the sustainable development. Specifically, the Bank has concentration limits, including industry limits, in place, applied when selecting the sectors to be financed and the scale of financing. The Bank co-finances projects improving the natural environment, in particular the projects supported under domestic and EU policies, including initiatives seeking to make the transition to a low-carbon economy. Moreover, the Bank has implemented the Environmental Risk Assessment Principles for Green Transactions Portfolio in BOŚ S.A., specifying, among other things, the criteria for including transactions in the Bank's green portfolio and for assessing the environmental risk materiality as part of ICAAP. Full alignment of the Bank's regulations with the climate risk guidelines, including pending EU legislation, should be achieved by end of 2021. The application of the principle also requires that the Bank analyse and update its risk-related policies - credit risk management policy and client credit risk assessment methodology, environmental risk assessment, and process rules analysis.

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

Bank's comments: The value of the equal pay index will be published when the Diversity Policy for the Management Board and the Supervisory Board is formally adopted by the Bank, which should take place by the end of June 2022.

- 2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy specifies diversity goals and criteria, such as gender, education, expertise, age or professional experience, sets the deadlines and defines the monitoring procedures. With regard to gender diversity of governing bodies, the diversity requirement is met when participation of the minority group in each body is at least 30%.

Bank's comments: The Diversity Policy for the Management Board was adopted by the Bank on November 17th 2021, and the Diversity Policy for the Supervisory Board is expected to be adopted by the end of June 2022.

- 2.2. Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.

Bank's comments: The Diversity Policy for the Management Board was adopted by the Bank on November 17th 2021, and the Diversity Policy for the Supervisory Board is expected to be adopted by the end of June 2022.

- 2.11.1. In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year. The report should contain at least the information about the members of the supervisory board and its committees, including indication of those supervisory board members who fulfil the criteria of being independent referred to in the Act of 11 May 2017 on Auditors, Audit Firms and Public Supervision and those supervisory board members who have no

actual and material relations with any shareholder who holds at least 5% of the total vote in the company, and information about the members of the supervisory board in the context of diversity;

Bank's comments: The diversity policy for the management board and the supervisory board is expected to be adopted by the Bank by the end of June 2022.

- 2.11.6. In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year. The report referred to above shall include at least the information regarding the degree of implementation of the diversity policy for the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.

Bank's comments: The diversity policy for the management board and the supervisory board should be adopted by the Bank by the end of June 2022.

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

Bank's comments: The principle will be applied after the Rules of Procedure for General Meetings have been amended by the next General Meeting, to be held no later than the end of June 2022.

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

Bank's comments: The principle will be applied after the Rules of Procedure for General Meetings have been amended by the next General Meeting, to be held no later than the end of June 2022.

In 2021, the Bank applied all of the Principles of Corporate Governance for Supervised Institutions, issued by the PFSA, with the exception of the following Art. 8.4: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting."

This principle have been applied since September 30th 2021, i.e. following the adoption by the Supervisory Board of Bank Ochrony Środowiska S.A. of the rules of participation in general meeting using means of electronic communication. During the Extraordinary General Meeting convened on December 8th 2021, the Bank enabled the shareholders to participate, speak and exercise their voting rights using means of electronic communication.

The Bank ensures a transparent information policy with respect to the General Meetings by recording their proceedings and publishing the audio recordings and, starting from June 23rd 2021, also video recordings, in the 'Investor Relations' section, 'General Meetings' tab on the Bank's website (<https://www.bosbank.pl/informacje-korporacyjne/relacje-inwestorskie/walne-zgromadzenia>).

2. Shareholding structure and rights attached to shares

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

The following shareholders held at least 5% of the share capital and total voting rights (as at December 8th 2021, the date of the Extraordinary General Meeting of BOŚ S.A.):

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

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

2.2. Treasury shares

As at December 31st 2021, the Bank held 37,775 treasury shares, representing 0.04% of the share capital and 0.04% of total voting in the Bank.

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

2.3. Agreements concerning future changes in the shareholding structure

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

2.4. Holders of special control rights attached to securities

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

2.5. Limitations to exercising of voting rights and to transfer of ownership of shares

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

2.6. Rules of amending the Articles of Association of the Bank

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

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

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

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

Competences of the General Meeting include in particular:

- consideration and approval of the statement of the Management Board on activity of the Bank and the financial statements of the Bank,
- consideration and approval of the statement of the Management Board on activity of the BOŚ Group and the consolidated financial statements of the of the BOŚ Group,
- passing of the resolution on profit distribution or loss coverage,
- consideration and approval of the report on activity of the Supervisory Board,
- discharging of members of governing bodies of the Bank of their duties,
- appointing and dismissal of members of the Management Board,
- passing of the policy of assessment of adequacy of candidates for members of the Supervisory Board and members of the Supervisory Board, as well as assessment of adequacy of candidates for members of the Supervisory Board and members of the Supervisory Board,

- amending of the Articles of Association of the Bank
- authorization of the Supervisory Board to approve the uniform text of the amended Articles of Association or to introduce significant editorial amendments as specified in the resolution of the General Meeting,
- passing of resolutions to raise or decrease the share capital,
- passing of resolutions to issue exchangeable bonds or bonds with pre-emptive right,
- decisions to establish or release funds, referred to in Art. 36.1 of the Bank's Articles of Association,
- passing of resolutions on combination, disposal or liquidation of the Bank,
- appointment of liquidators and determination of their remuneration,
- establishment of rules for determining remuneration of members of the Supervisory Board and the Management Board,
- determination of the Supervisory Board Members' remuneration;
- passing of resolutions concerning other matters as presented by the Management Board and the Supervisory Board or shareholders in accordance with the Code of Commercial Companies, the Banking Law Act and the Articles of Association of the Bank.

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

- Shareholders may participate in a General Meeting in person or through the agency of their authorized plenipotentiaries.
- Powers of attorney for participation in the General Meeting should be issued in writing or in electronic format and attached to the minutes of the General Meeting.
- Electronic format of a power of attorney granted is considered to be a statement of the shareholder, contained in an integral text document, which allows for identification of the author of such statement.
- A shareholder may not, through a proxy or in person, vote on resolutions concerning their liability to the Company of any kind, including discharge from duties to the Company and any litigations between such shareholder and the Bank. However, such shareholder, acting as a proxy of another person, may vote on passing of resolutions that are of concern to them.
- Subject to cases referred to in the Code of Commercial Companies or the Articles of Association of the Bank, a General Meeting is valid regardless of the number of shares represented.
- Resolutions are passed by the ordinary majority of votes, unless provisions of the Code of Commercial Companies or the Articles of Association of the Bank provide for more strict voting rules.
- Voting during a General Meeting is open.
- A secret voting is ordered for elections and requests for dismissal of members of the Bank's governing bodies or liquidators, for charging them with liability, as well as in personal matters. Moreover, a secret voting is obligatory if demanded even by one of the shareholders present or represented during the General Meeting.
- The General Meeting may pass a resolution on revoking of secrecy of voting in matters relating to appointment of any committee by the General meeting.
- A shareholder may participate in the General Meeting at the venue of the General Meeting or using electronic means of communication.
- The rules of participation, technical requirements and the Bank's and the shareholder's liability in the event that a shareholder participates in the General Meeting by means of electronic communication are specified in the Rules of Participation in the General Meeting by Means of Electronic Communication. The Rules are available on the Bank's website in the "Investor Relations" section under "Corporate Documents" (<https://www.bosbank.pl/informacje-korporacyjne/relacje-inwestorskie/dokumenty-korporacyjne>).

A General Meeting is opened by the chairman or vice chairman of the Supervisory board, or another member of the Supervisory Board. If these persons are not present, the General Meeting is opened by the President of the Management Board or any other person appointed by the Management Board. The General Meeting elects the



chairman of the Meeting from among persons authorized to participate in the General Meeting. Minutes of the General Meeting are prepared in accordance with provisions of the Code of Commercial Companies.

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

3. Governing bodies

3.1. General Meeting of the Bank

Description of the mode of action of the General Meeting of the Bank and its basic scope of authorization and rights of shareholders and the manner of exercising of these rights has been provided in clause 2.7.

3.2. Supervisory Board of the Bank

Supervisory Board

As at December 31st 2020, the composition of the Supervisory Board was as follows:

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

Members

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

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

- Emil Ślężak, Chairman of the Supervisory Board
- Ireneusz Purgacz, Deputy 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
- Piotr Wróbel.

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

- On February 10th 2021, Marzena Koczut, following her appointment as Vice President of the Management Board, tendered her resignation as member of the Supervisory Board;
- On June 23rd 2021, the Annual General Meeting of the Bank: removed Wojciech Wardacki from the Supervisory Board, appointed Zbigniew Dynak Andrzej Matysiak to the Supervisory Board;
- At the meeting held on July 13th 2021, the Supervisory Board elected Emil Ślężak as Chairman of the Supervisory Board.

As at December 31st 2021, the following members of the Supervisory Board:

- met the independence criteria: Emil Ślęzak, Ireneusz Purgacz, Paweł Sałek, Leszek Banaszak, Zbigniew Dynak, Janina Goss, Marcin Jastrzębski;
- did not meet the independence criteria: Robert Czarnecki, Andrzej Matysiak, Piotr Wróbel.

Rules of operation of the Supervisory Board of the Bank

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

Mandates of members of the Supervisory Board expire as of the date of the General Meeting approving the report on activity and the financial statements for the last full financial year of performing functions as a member of the Supervisory Board. Mandates of members of the Supervisory Board also expire due to their death, resignation or dismissal from the Board. Supervisory Board members can be dismissed prior to the end of their term of office and other persons can be elected in their place. In the case of dismissal, resignation or death of a member of the Supervisory Board during their term of office, until the vacancy has been filled, the Board may continue to work, provided that it comprises of no less than 5 persons.

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

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

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

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

Competences of Supervisory Board include in particular:

- approving the business strategy of BOŚ S.A. and the Bank’s annual budgets,
- approving the general acceptable risk level specified by the Management Board of the Bank and strategies for management of the Bank and risk management approved by the Management Board of the Bank,
- approving the policy for estimation of internal capital and capital management,
- approving the remuneration policy,
- approving the compliance policy of the Bank,
- approving the information policy of the Bank, including disclosures,
- approving resolutions of the Management Board concerning the Bank’s organizational structure, provided that the competences to create and liquidate organizational units of the Bank are within the scope of competences of the Management Board,
- notifying the Polish Financial Supervision Authority of the composition of the Management Board and of any change in its composition as soon as the Management Board is appointed or its composition is changed, of the Management Board members' compliance with the requirements referred to in Art. 22aa of the Banking Law, as well as of approval and change of the internal division of powers within the Management Board, notifying the Polish Financial Supervision Authority of placing on the Board's agenda an item concerning dismissal of the President of the Management Board or the member of the Management Board

who supervises the management of risks significant for the Bank's business, or assigning another member of the Management Board to take over the responsibility,

- assessing the Directors' Report on the operations of the Bank and the financial statements for the previous financial year with regard to their compliance with the books, documents and facts, and assessment of the Management Board's requests concerning profit distribution or loss coverage, as well as submission to the General Meeting of an annual written report on results of the assessment,
- assessing the Directors' Report on the operations of the BOŚ Group and the financial consolidated statements of the BOŚ Group for the previous financial year with regard to their compliance with the books, documents and facts, as well as submission to the General Meeting of an annual written report on results of the assessment,
- defining the terms and conditions of employment, including the terms of other legal relations than employment, for members of the Bank's Management Board, based on the rules of remuneration for members of the Management Board determined by the General Meeting, and entering into management services contracts with members of the Management Board on behalf of the Bank. The Supervisory Board may authorise the Chairperson of the Supervisory Board to enter into such contracts,
- approving rules for granting credits, cash loans, bank guarantees or sureties to members of the Bank's governing bodies and persons holding managerial positions at the Bank, as well as other persons listed in art. 79 of the Banking Law Act,
- passing resolutions concerning consent for granting credits, cash loans, bank guarantees or sureties to members of the Bank's governing bodies and other persons listed in art. 79a of the Banking Law Act,
- approving requests of the Management Board of the Bank concerning acquisition of stocks and shares in companies of nominal value exceeding in total with stocks and shares in these companies already owned by the Bank the equivalent of 5% of the share capital of the Bank, excluding shares of companies admitted to public trading,
- selecting and appointing the independent auditor to conduct an audit of the financial statements and other experts,
- supervising implementation at the Bank of a management system comprising a risk management system and an internal control system, and assessing the adequacy and effectiveness of such systems,
- assessing periodic information on the level of banking risk and the quality of managing the risk,
- assessing periodic information on irregularities found and conclusions based on internal audits conducted, as well as activities conducted for the purpose of their elimination or implementation,
- approving the procedure for establishing and terminating the employment relationship with the person in charge of the internal audit function and the person in charge of the compliance function, as well as approving the amount of remuneration of such persons,
- adopting a policy of evaluating the suitability of candidates for members of the Management Board, members of the Management Board, and the Management Board as a whole, and conducting qualification procedures for members of the Management Board,
- approving the internal division of powers within the Management Board;
- approving the rules of procedure of the internal audit unit (internal audit card) and approving the internal audit plan;
- approving the rules of procedure of the compliance unit and its annual action plans.

The powers and responsibilities of the Supervisory Board also include:

- drawing up an annual report on the activities of the Supervisory Board, together with a brief assessment of the Bank's situation on a consolidated basis, including an evaluation of the internal control systems, risk management and the compliance and internal audit functions – to be submitted to the General Meeting for approval,
- considering and evaluating information received from the Management Board on all material matters relating to the Bank's business,
- as part of the oversight over the Bank's internal control system and risk management system, and of the financial reporting process, in particular:
 - appointing the Internal Audit Committee and the Risk Committee, adopting by-laws defining the organization and tasks of these Committees and determining their composition,

- approving the Bank's internal regulations, concerning in particular: the operation of the Bank's internal control system and the risk management system, and management of individual types of banking risk,
- considering and evaluating periodic reports presenting the results of internal audits,
- considering and evaluating periodic information on effectiveness of the internal control and risk management systems,
- considering and evaluating periodic reports on compliance risk management,
- considering and evaluating annual reports of the head of the internal audit function on the effectiveness of the internal control system, the risk management system, the compliance function and the internal audit function,
- evaluating the adequacy and effectiveness of whistleblowing procedures,
- considering and evaluating information presented by the auditor on the course and results of the audit of full-year financial statements of the Bank and its Group,
- appointing the Remuneration and Nomination Committee, adopting rules of procedure defining the organisation and tasks of the Committee and determining its composition,
- appointing the Ecology Committee, adopting rules of procedure defining the organisation and tasks of the Committee and determining its composition,
- appointing the Strategy and Development Committee, adopting rules of procedure defining the organisation and tasks of the Committee and determining its composition,
- considering the Management Board's proposals concerning the Bank's intention to enter into a material contract/transaction with a related party, except for typical transactions executed on arm's-length terms in the ordinary course of business with a subsidiary in which the Bank holds a majority interest,
- supervising compliance by the Bank with its obligations related to the performance of the activities referred to in Art. 70.2 of the Act on Trading in Financial Instruments,
- giving consent for the members of the Management Board to serve on bodies of entities outside the Group,
- exercising supervision over the implementation of internal governance in the Bank and assessing, at least once a year, its adequacy and effectiveness, in particular taking into account any changes in internal and external factors affecting the Bank,
- giving consent to the conclusion by the Bank of contracts for the provision of legal services, marketing services, public relations and social communication services, as well as management consulting services if the total consideration for the services to be provided under a single contract exceeds PLN 250,000 net a year, or where an amendment to such a contract is to increase the consideration above the amount, or where the contract does not provide for the maximum amount of consideration,
- giving consent for the Bank to enter into an agreement:
 - for donation or any other agreement of similar effect with a value exceeding PLN 20,000 or 0.1% of the total assets within the meaning of the Accounting Act of September 29th 1994, as determined on the basis of the most recent approved financial statements,
 - for release from debt or any other agreement of similar effect, with a value exceeding PLN 50,000 or 0.1% of the total assets within the meaning of the Accounting Act of September 29th 1994, as determined on the basis of the most recent approved financial statements,
- approving the policy for identifying key functions at the Bank and appointing and removing persons discharging those functions,
- approving Code of Ethics that defines norms and ethical standards of conduct of members of the Bank's governing bodies and employees, as well as other persons through whom the Bank conducts its business,
- approving the policy for managing conflicts of interest,
- approving the Bank's remuneration rules and supervising their application; also evaluating, at least once a year, their impact on the Bank's management,
- approving the principles of risk culture for the Bank as a whole,
- approving the 'New Product Approval Policy',
- preparing the annual plan of work of the Supervisory Board,

Meetings of the Supervisory Board are convened by the chairman as necessary, at least once every quarter. At least seven days prior to the date of a Supervisory Board meeting, members are notified of the time, place and

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

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

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

Members of the Supervisory Board may participate in adopting resolutions by casting their votes in writing through another member of the Board or by means of direct remote communication. Matters placed on the agenda during the Supervisory Board meeting may not be voted on in writing through another member of the Supervisory Board.

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

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

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

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

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

The Internal Audit Committee

Duties:

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

The IAC's primary duties include:

- Monitoring of:
 - financial reporting process,
 - effectiveness of internal control and risk management systems, and of internal audit, including with respect to financial reporting,

- performance of financial audits, in particular of audits conducted by the audit firm, taking into consideration all recommendations and findings of the Audit Oversight Commission, related to the audit carried out at the audit firm;
- Checking and monitoring independence of the statutory auditor and audit firm, in particular, if any services other than audit are provided by the audit firm to the Bank;
- Reporting outcomes of the audit to the Supervisory Board and explaining how the audit contributed to reliability of financial reporting of the Bank and what role the Committee played in the audit process;
- Assessing independence of the auditor and approving the provision of permitted non-audit services by the auditor;
- Developing a policy for selection of an audit firm to perform audits;
- Developing a policy for provision of permitted non-audit services by the audit firm, its affiliates and members of its network;
- Establishing the Bank's audit firm selection procedure;
- Giving recommendations to ensure reliability of the Bank's financial reporting process;
- Presenting to the Supervisory Board the recommendation referred to in Article 16.2 of Regulation No. 537/2014, in accordance with the policies referred to in items 5 and 6 of the Rules;
- Exercising supervision over the activities of the internal audit unit, in particular over the proper location of the internal audit unit within the Bank's organisational structure, ensuring independence of its operation, in accordance with the supervisory regulations.
- Details concerning the IAC's responsibilities, powers and organisational structure are set forth in the rules of procedure entitled 'Organisation and Tasks of the Internal Audit Committee', adopted by Supervisory Board Resolution 71/2020 of November 25th 2020.

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

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

Moreover, in 2021, the Internal Audit Committee followed the guidelines contained in:

- Recommendation H and Recommendation L of the Polish Financial Supervision Authority;
- Regulation of the Minister of Development and Finance of June 8th 2021 on risk management and internal control systems, and on remuneration policy;
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of April 16th 2014 on specific requirements regarding statutory audit of public-interest entities;
- Best Practice for GPW (WSE) Listed Companies 2021;
- Principles of Corporate Governance for Supervised Institutions endorsed in Resolution 218/2014 of the Polish Financial Supervision Authority of July 22nd 2014;
- PFSA's recommendations and guidelines on the operation of audit committees;
- Best practices for public-interest entities regarding appointment, composition and operation of audit committees and the methodology for assessing the suitability of members of the governing bodies of supervised entities, issued by the Polish Financial Supervision Authority;
- Commission Delegated Regulation (EU) 2017/565 of April 25th 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive;
- Act on Trading in Financial Instruments of July 29th 2005 (consolidated text: Dz.U. of 2017, item 1768, as amended) with secondary legislation, including in particular the Regulation of the Minister of Finance of May 29th 2018 on specific technical and organisational requirements applicable to investment firms, banks referred to in Art. 70.2 of the Act on Trading in Financial Instruments, and custodian banks (Dz.U. of 2018, item 1111).

IAC's composition and suitability assessment of candidates:

- Members of the Internal Audit Committee are appointed from among the members of the Supervisory Board. Pursuant to the IAC's rules of procedure endorsed in Resolution 71/2020 of the Supervisory Board of BOŚ S.A. (as amended),
- the IAS is composed of at least three members of the Supervisory Board of BOŚ S.A., including the Chairperson and Deputy Chairperson.
- The IAC's members are appointed and their suitability is assessed pursuant to the provisions of the 'Policy for assessing the suitability of candidates for members of the Supervisory Board, members of the Supervisory Board, and the Supervisory Board of Bank Ochrony Środowiska S.A.' (hereinafter referred to as the 'Suitability Assessment Policy'), endorsed in Resolution 27/2020 of the Ordinary General Meeting of BOŚ S.A. of June 17th 2020.

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

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

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

In the reporting period, the Supervisory Board performed individual suitability assessment of candidates for and members of the IAC and collective suitability assessment of the IAC, based on recommendations of the Remuneration and Nomination Committee (RNC). Based on the submitted statements and self-evaluation forms, the RNC reviewed the IAC's candidates' and members' knowledge and skills concerning accounting, financial auditing and the sector in which BOŚ S.A. operates, and assessed their compliance with the independence criteria.

The Supervisory Board of BOŚ S.A., taking into consideration the recommendation of the Remuneration and Nomination Committee of the Supervisory Board of BOŚ S.A. in the matter of collective suitability assessment, concluded that the individual competences of the individual members of IAC whose composition was approved in Resolution 69/2021 of the Supervisory Board of BOŚ S.A. of July 13th 2021, are complementary enough to ensure adequate collective suitability as regards:

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

Re-assessment of the individual suitability of the IAC's candidates was conducted on the basis of the statements submitted by them as required under the Act on Statutory Auditors, Audit Firms and Public Supervision of May 11th 2017, in line with the procedure set out in the Suitability Assessment Policy (...).

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

IAC's composition from January 1st 2021 to July 13th 2021.

- Wojciech Wardacki - Chairman of the Committee (until June 23rd 2021);
- Emil Ślęzak – Deputy Chairman of the Committee;
- Leszek Banaszak – Member of the Committee;

- Ireneusz Purgacz – Member of the Committee.

IAC's composition from July 13th 2021 to December 31st 2021.

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

Organisation of the IAC's work

The Internal Audit Committee performs its statutory duties in line with its annual work plan which is monitored on an ongoing basis and updated as necessary, at IAC's meetings, in accordance with the adopted meeting agenda. In 2021, meetings of the Internal Audit Committee were convened on a regular basis. During 15 meetings held throughout 2021, the IAC considered motions submitted by the Bank's business units and made relevant decisions, in compliance with applicable procedures for conducting meetings and voting.

The Risk Committee

The Risk Committee supports the Supervisory Board in its risk oversight functions. The Committee performs the tasks provided for in the Banking Law Act of August 29th 1997 (Dz.U.2019.2357, consolidated text of December 5th 2019), in the Bank's Articles of Association and in resolutions of the Bank's Supervisory Board.

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

- Issuing comprehensive opinions on the Bank's current and future willingness to accept risk, including:
 - receiving periodic reports/ information from the Bank's Management Board on key events relevant for Bank's risk level and on material changes in the risk management process and system,
 - receiving periodic reports/information from the Bank's Management Board on the Bank's risk level, increased exposure to specific risks, risk identification and monitoring methods, risk mitigation measures in place;
- Issuing opinions on the Bank's business risk management strategy developed by the Management Board and the Management Board's updates on the strategy implementation;
- Supporting the Bank's Supervisory Board in exercising supervision over the implementation of the business risk management strategy by senior management staff;
- Reviewing the prices of assets and liabilities offered to clients for their alignment with the Bank's business model and risk strategy, and where the prices fail to properly account for the risks stemming from the Bank's business model and risk strategy - recommending measures to be undertaken by the Management Board to ensure that the prices of assets and liabilities adequately reflect the risks involved.

In 2021, the Risk Committee consisted of the following members:

- From January 1st 2021 to July 13th 2021:
Emil Ślązak – Chairman of the Committee;
Leszek Banaszak – Deputy Chairman of the Committee;
Marzena Koczut – Member of the Committee;
Wojciech Wardacki - Member of the Committee.
- From July 13th 2021 to December 31st 2021:
Emil Ślązak – Chairman of the Committee;
Leszek Banaszak – Deputy Chairman of the Committee;
Andrzej Matysiak - Member of the Committee.

The Risk Committee held 11 meetings in 2021.

Remuneration and Nomination Committee

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

- Art. 22aa of the Banking Law Act – the tasks concerning the suitability assessment of candidates and members of the Bank's Supervisory Board and Management Board, as applicable;
- Art. 9ca. of the Banking Law Act and the Regulation of the Minister of Development and Finance of June 8th 2021 on banks' risk management and internal control systems, and on remuneration policy – the tasks concerning the remuneration policy;
- Regulation of the Minister of Finance of May 7th 2018 on the detailed scope of tasks of nomination committees in significant banks,

including in particular:

- the tasks concerning the suitability assessment of candidates for the members and members of the Supervisory Board and of the Supervisory Board:
 - issuing opinions on the draft suitability assessment policy and amendments thereto;
 - furnishing the General Meeting with reports from the documentation and credibility review performed in order to assess the suitability of a candidate for a member or a member of the Bank's Supervisory Board;
 - furnishing the General Meeting or the Supervisory Board, as applicable, with proposed individual suitability assessments of candidates for members or members of the Supervisory Board/Internal Audit Committee and proposed collective suitability assessment of the Supervisory Board/Internal Audit Committee;
 - providing feedback to persons subject to suitability assessment procedure;
- the tasks concerning the suitability assessment of candidates for members and members of the Management Board and of the Management Board:
 - issuing opinions on the draft suitability assessment policy and amendments thereto;
 - furnishing the Supervisory Board with reports from the documentation and credibility review performed in order to assess the suitability of a candidate for a member or a member of the Bank's Management Board;
 - recommending candidates to the Bank's Management Board, taking into account the knowledge, skills and experience of the Management Board as a whole, and the diversity of the Management Board's composition;
 - furnishing the Supervisory Board with proposed individual suitability assessments of candidates for members or members of the Management Board and proposed collective suitability assessment of the Management Board;
 - defining the scope of responsibilities for a candidate for the Management Board, the scope of required knowledge and skills, and expected time commitment, necessary to perform the function;
 - performing periodic, at least annual, evaluation of the knowledge, skills and experience of the Management Board as a whole and of its individual members; reporting the evaluation results to the Management Board;
 - providing feedback on the individual suitability assessment to persons subject to such assessment;
- the tasks concerning the suitability assessment of candidates for key functions at the Bank or persons holding such key functions:
 - issuing opinions on the draft suitability assessment policy and amendments thereto;
 - performing periodic reviews of the suitability assessment policy and presenting recommendations to the Board in this regard;
- the tasks concerning the diversity policy applicable to the members of the Bank's Management Board - setting the gender representation target for the gender underrepresented in the Bank's Management Board, and drafting the Management Board diversity policy with a view to achieving the set representation target;
- the tasks concerning the remuneration policy - issuing opinions and ongoing monitoring of the Bank's remuneration policy, supporting the Bank's governing bodies in designing and implementing the remuneration policy through:

- o giving opinions on the list of persons holding key managerial positions in the Bank and on annual list updates;
- o designing remuneration packages for the members of the Management Board, including variable remuneration amounts and components, factors affecting variable remuneration, and performance evaluation criteria; recommending the same to the Supervisory Board;
- o giving recommendations to the Supervisory Board on awarding, reducing, withholding, or refusing to pay variable remuneration of the members of the Management Board;
- o giving opinions on the amounts of variable remuneration for persons holding managerial positions in the Bank, involved in risk management and compliance;
- o giving opinions on and monitoring of variable remuneration for persons holding managerial positions, in charge of first and second line of defence in risk management, other than those specified in item d;
- o giving opinions on the remuneration policy of the Group and on assessment of the materiality of the subsidiaries' impact on the risk profile of the Bank;
- o performing, at least annual, periodic evaluation of the size structure, composition and efficiency of the Management Board and recommending changes in this respect to the Supervisory Board.

In 2021, the Remuneration and Nomination Committee consisted of the following members:

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

Meetings of the RNC are convened as necessary, but not less frequently than twice a year. In the reporting period, the RNC held 12 meetings. In addition, on two occasions the RNC made decisions without convening the meeting (by circulation).

Environmental Protection Committee

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

In 2021, the EPC consisted of the following members:

- From January 1st 2021 to July 13th 2021:
Paweł Sałek – Chairman of the EPC;
Janina Goss – Member of the EPC;
Marcin Jastrzębski – Member of the EPC;
- From July 13th 2021 to December 15th 2021:
Paweł Sałek – Chairman of the EPC;
Andrzej Matysiak - Member of the Committee.
Marcin Jastrzębski – Member of the EPC;
- From December 15th 2021 to December 31st 2021:
Andrzej Matysiak - Chairman of the EPC;
Paweł Sałek - Deputy Chairman of the EPC;
Marcin Jastrzębski – Member of the EPC.

Meetings of the Ecology Committee are convened by the Chairman when and as needed. The EPC held six meetings in 2021. During the meetings, the EPC members discussed recommendations for the Supervisory Board

made in (quarterly) reports on the Bank's environmental activities, which included, among others, information on the sales and balance of green loans and on environmental projects. Every quarter, the EPC presented information on the cooperation with the National and Provincial Funds for Environmental Protection and Water Management.

The EPC also discussed other significant issues affecting the Bank's operations. In particular (in October 2021), it gave its opinion on: ESG Report, ESG Strategy, Climate Policy and Environmental Policy. The documents were adopted by the Supervisory Board, taking into account the EPC's recommendations.

Strategy and Development Committee

The Strategy and Development Committee (SDC) supports the Supervisory Board in designing the Bank's growth policies. The SDC performs the following tasks:

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

In 2021, the Committee consisted of the following members:

- Marcin Jastrzębski – Chairman of the Committee,
- Robert Czarnecki – Deputy Chairman of the Committee,
- Piotr Wróbel – Member of the Committee,
- Zbigniew Dynak - Member of the Committee (from June 23rd 2021)

In 2021, 12 meetings of the Bank's Strategy and Development Committee were held.

3.3. Management Board of the Bank

Management Board

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

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

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

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

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

- on February 10th 2021, the Supervisory Board appointed Marzena Koczut as Vice President of the Management Board,
- on February 15th 2021, the Supervisory Board appointed Robert Kasprzak as Vice President of the Management Board,
- on March 3rd 2021, considering approval granted by the Polish Financial Supervision Authority, the Supervisory Board appointed Wojciech Hann as President of the Management Board.

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

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

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

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

The Management Board makes decisions on any matters not reserved for the other governing bodies of the Bank. The collegial powers of the Management Board are stipulated in the Bank's Articles of Association, the Banking Law, the Commercial Companies Code and other internal and external regulations governing the Bank's activities, including in particular resolutions and recommendations of the Polish Financial Supervision Authority.

In particular, the Management Board of the Bank:

- represents the Bank before courts, public administration bodies and third parties,
- adopts the Bank's business strategies and annual budgets,
- passes resolutions on the Bank's organisational structure and on the establishment and liquidation of the Bank's organisational units,
- passes resolutions on acquisition and disposal of property or an interest in property,
- passes resolutions on convening the General Meeting of the Bank and drafts internal regulations, the issuance of which falls within the competence of the General Meeting and the Supervisory Board,
- makes decisions on matters concerning incurring liabilities or disposing of assets where their aggregate value with respect to one entity exceeds 5% of the Bank's own funds approval, with the proviso that the Supervisory Board is authorised to approve the Management Board's requests concerning acquisition of company shares with a par value exceeding – in combination with shares already held by the Bank in a given company – the equivalent of 5% of the Bank's share capital, excluding shares of companies admitted to public trading,
- adopts the Bank's information policy,
- adopts the Bank management strategy and the risk management strategy,
- defines the acceptable overall risk level,
- manages special funds,
- adopts the procedure for the appointment and removal of the person managing the internal audit function and the person managing the compliance function, and determines the amount of remuneration for such persons,
- adopts the remuneration policy,
- adopts the policy for identifying key functions at the Bank and for appointing and dismissing persons who hold such functions, including the assessment of the suitability of candidates and persons holding positions in key functions at the Bank,
- adopts the compliance policy of the Bank,
- adopts the policy for calculating internal capital and for capital management purposes;
- adopts the rules of procedure for the internal audit function (Internal Audit Charter) and issues an opinion on the internal audit plan;
- approves the rules of procedure for the compliance function and its annual operation plans.
- determines the internal division of powers within the Management Board of the Bank,
- adopts the Rules of Procedure of the Management Board, determining in particular the matters that require adopting resolutions collectively as well as procedural and formal matters related to holding meetings, and the detailed procedure for adopting resolutions.

The collegial powers of the Management Board also include, in particular:

- passing resolutions on matters that affect:
 - financial results of the Bank, including in particular financial planning (budgeting), defining the business strategy for the Bank, and setting interest rates on cash deposits and credit products of the Bank,
 - development of the Bank's relationship with the external environment, including in particular matters related to the setting of rules of appointment and removal of attorneys-in-fact and commercial proxies, defining the rules for the Bank's conduct vis-a-vis clients and in the interbank and financial markets, including definition of templates of rules for clients,
 - definition and division of powers at the Bank, including in particular matters related to the determination of credit risk assessment rules and rules of making lending decisions at the Bank,
- lending decisions in accordance with applicable internal rules,
- consideration of periodic reports on the implementation of the Bank's tasks and its economic, financial, organisational and HR situation,
- decisions and resolutions on other matters provided for in the Bank's Articles of Association or the Rules of Procedure for the Management Board or submitted by members of the Management Board.

The President of the Management Board performs the tasks set out in the Bank's Articles of Association and other internal regulations, including: the Rules of Procedure of the Management Board, the Organizational Rules of the Bank, and the resolution on the internal division of powers in the Management Board of the Bank.

In particular, the President of the Management Board:

- coordinates all activities of the Bank,
- issues internal orders,
- directs the work of the Management Board of the Bank, convenes Board meetings, approves the agenda and chairs the meetings, and ensures that decisions of the Management Board are made properly, in accordance with the rules and regulations in force,
- make HR decisions to the extent specified in the Bank's Articles of Association and other internal regulations,
- issues organizational rules for the Bank and its organizational units,
- manages the internal control process at the Bank,

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

Members of the Management Board exercise supervision over the business areas reporting to them. In their supervisory capacity, the members of the Management Board in particular:

- inspire the activities of the supervised organisational units of the Head Office, in accordance with their respective tasks and the Bank's development directions set out in the business strategies and budgets,
- monitor the course of work and the correctness of activities undertaken in the Head Office units supervised by them, the progress of such work and activities as well as their final implementation and compliance with the law and internal regulations,
- approve and refer for consideration by the Management Board or for decision by the President of the Management Board materials prepared by the supervised organisational units of the Head Office,
- verify the adequacy of the existing internal rules and organisational structures for the current tasks of the supervised organisational units of the Head Office,
- supervise the implementation of internal control tasks in the areas of the Bank's business under their supervision, in order to ensure effective and secure development of the Bank,
- monitor the risks in the business areas under their supervision,
- issue circular letters, which are implementing regulations for the President's resolutions and orders,
- issue instructions on how to deal with a matter to the Head Office's organisational units under their supervision,
- in accordance with the Order of the President of the Management Board concerning the rules of hiring of employees for the Bank within the framework of remuneration budgets set by the Management Board and in compliance with the established pay spine – make decisions on employment and remuneration, changes in the terms and conditions of employment and on the termination of employment contracts with employees at the Head Office supervised by the Management Board pursuant to the Organisational Rules of the Bank,
- ensure that the Bank fulfils its obligations in connection with the performance of the activities referred to in Art. 70.2 of the Act on Trading in Financial Instruments, make assessments and periodic reviews of the strategy, arrangements and procedures introduced in order to fulfil those obligations, and indicate the Management Board member in charge of that area,
- are responsible for the day-to-day operation of the procedures for reporting breaches of the law, regulations applicable at the Bank and market standards, and indicate the Management Board member responsible for this area, to whom such breaches are to be reported.

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

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

The Bank's attorneys-in-fact are appointed and removed by the President of the Management Board acting individually or by two persons from among the other members of the Management Board, commercial proxies or attorneys-in-fact acting jointly according to, and within, their authorisation.

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

The Bank's Management Board complies with the corporate governance principles set out in:

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

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

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

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

Considering the threat of the spread of the COVID-19 epidemic and with a view to minimising health risks for employees, the Bank introduced specific organisational solutions regarding the organisation of the Management Board meetings, which include allowing the Management Board to adopt resolutions outside the meetings, by means of direct remote communication (in particular by e-mail) or in writing. Resolutions may be adopted in this manner subject to a prior consent of the President of the Management Board. Appropriate regulations are included in the Rules of Procedure of the Management Board.

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

Meetings of the Management Board are attended by its members, the person in charge of the internal audit unit, the person in charge of the compliance unit, as well as other invited persons or persons indicated in a separate order of the President of the Management Board. Persons participating in a meeting may also take part in its proceedings by means of direct remote communication, including instant messaging/applications enabling tele-

or videoconferencing. At meetings of the Management Board, the President presents a draft agenda for approval, chairs the meeting, gives the floor, decides on procedural matters, summarises findings and results of discussions, and formulates resolutions, recommendations and conclusions. Where justified by business or formal and legal considerations, a Board Member may – with the consent of the President of the Management Board – bring to the Board's attention a subject not included in the meeting agenda.

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

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

4. Control systems deployed in financial reporting

Internal control system

BOŚ S.A. has implemented a suitable and effective internal control system forming a part of the Bank's overall management system endorsed in resolutions of the Bank's Supervisory Board. The internal control system supports the Bank's Supervisory Board, Internal Audit Committee, Management Board and employees in the proper, efficient and effective performance of their duties.

It combines closely interrelated multifaceted management processes covering all areas of the Bank's operations and is intrinsically and comprehensively integrated with the overall Bank's management system.

The Bank's internal control system is tailored to the organisational structure of BOŚ S.A. and encompasses the Bank's organisational units and subsidiaries. The Bank's risk management and internal control systems are organised on three independent levels:

- Level 1 comprises operational risk management;
- Level 2 comprises at least:
 - risk management by employees or functions specifically appointed/established for that purpose, independent of operational risk management,
 - activities of the compliance function;
- Level 3 comprises the activities of internal audit function.

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

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

The effectiveness of the internal control system depends on the effectiveness of each level.

The Bank deploys various controls to reduce the likelihood of risk materialisation, detect and remedy incidents that have occurred, and eliminate their consequences.

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

The Bank has a compliance function managing the compliance risk through: designing a compliance risk management policy and rules, organising a compliance risk management system, identifying, assessing, controlling, monitoring and reporting compliance risk, cooperating with other Group entities in the area of compliance risk management. The function reports directly to the President of the Bank's Management Board.

The Bank has an internal audit function which evaluates processes implementation and contributes to process streamlining, including in particular business, risk management and management processes as well as controls involved in these processes. The function conducts, among other things, a periodic review of the Bank's internal controls and related internal control procedures. The role of the internal audit function is to independently and impartially examine and evaluate the adequacy and effectiveness of the risk management system and internal control system (excluding the internal audit function) of the Bank and its subsidiaries. The findings of the reviews and audits carried out by the internal audit function are presented to the Bank's Management Board, the Internal Audit Committee and the Supervisory Board as part of the annual report on the effectiveness of the internal control system.

The internal audit function, reporting directly to the President of the Bank's Management Board, is an integral and independent element of the Bank's internal control system. The internal audit function is supervised by the Internal Audit Committee. The role of the internal audit function is to independently and impartially examine and evaluate the correctness, adequacy and effectiveness of the risk management system and the internal control system related to the operations of the Bank and its subsidiaries.

The internal audit function performs its tasks in accordance with applicable laws and the Bank's internal regulations, following best practices included in the International Standards for the Professional Practice of Internal Auditing recommended by the Institute of Internal Auditors and the Code of Ethics of the Institute of Internal Auditors (IIA).

Controls applied in financial reporting

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

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

In addition, the Supervisory Board performs an annual review of the full-year consolidated financial statements of the BOŚ Group, full-year financial statements of the Bank and of the Directors' Report on the operations of the BOŚ Group prepared together with the Directors' Report on the operations of BOŚ S.A., for their conformity with the books, documents and facts, in accordance with Art. 382.3 of the Commercial Companies Code.

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

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

- financial reporting process,

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

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

5. Conflicts of interest at BOŚ S.A.

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

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

6. Remuneration policy at BOŚ S.A.

6.1. Management Remuneration Policy

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

The Remuneration and Nomination Committee appointed by the Supervisory Board gives its opinion on the Remuneration Policy, gives its opinion on and draws up remuneration rules applicable to the members of the Management Board, gives its opinion on the amounts of variable remuneration for managers, gives its opinion on and monitors the amount of variable remuneration for the Bank's managers responsible for level 2 risk management, directing compliance function and internal audit function.

The Remuneration Policy was amended twice during the reporting period:

- Due to the need to implement EU legal provisions on capital requirements for financial institutions, known as the CRD V/CRR II package, incorporated into the national legal system by virtue of amended Banking Law Act and amended Regulation of the Minister of Finance, Development Funds and Regional Policy of June 8th 2021 on banks' risk management system and internal control systems, and on remuneration policy.
- The amended Remuneration Policy provides for, among other things, payment of at least 50% of variable remuneration in the Bank's shares valued at the weighted average WSE trading price in the period from December 1st of the year preceding the year in which the variable remuneration is awarded to January 31st of the year in which the variable remuneration is awarded. The term 'shares' means:
 - the shares of Bank Ochrony Środowiska S.A. listed on the Warsaw Stock Exchange,
 - virtual (phantom) shares with a value equalling the price of the Bank's shares listed on the Warsaw Stock Exchange.
- Payment of 40% of the variable remuneration in five deferred equal annual instalments, with at least 50% of each instalment payable in the Bank shares and the balance payable in cash. The deferred part may be suspended, reduced or not paid or realised at all when the Bank's results differ significantly from the approved financial plan for a given year, or in the circumstances referred to in Article 142.1 of the Banking Law Act;

- Performance evaluation covering a three-year period so that the performance-based component of the remuneration accounts for the Bank's business cycle of the Bank and the risks involved in its business operations. The term 'performance' means actual delivery of productivity, financial, sales and individual targets set forth in the Bank's strategy or financial plan for a given year;
- Gender neutrality.

The above rules apply to variable remuneration for 2021 and subsequent years.

- Due to the need to implement PFSA's Recommendation 15 contained in Recommendation Z, regarding the internal governance rules in banks and obligating banks to draw up in writing and implement, upon approval of the Supervisory Board, a transparent and comprehensible remuneration policy specifying among other things, the maximum ratio of the average annual total gross remuneration of the Bank's Management Board members to the average annual total gross remuneration of other employees to be 16:1. In view of the above, fulfilling the disclosure obligation under PFSA's Recommendation 30.1. contained in Recommendation Z and the Bank's Remuneration Policy, Bank Ochrony Środowiska S.A. reports that the ratio of the average annual total gross remuneration of the Bank's Management Board members in 2021 to the average annual total gross remuneration of other employees in 2021 is 6.21, which is below the set maximum value.

The maximum amount of variable remuneration for each person holding a managerial position does not exceed 100% of the person's fixed remuneration. The maximum level of variable remuneration may be increased to 200% of the fixed remuneration upon consent of the General Meeting of Bank Ochrony Środowiska S.A., in accordance with the procedure provided for in Art.25.3.4.b) and Art.25.3.4.c) of the Regulation of the Minister of Finance, Development Funds and Regional Policy. The increase of the maximum amount of variable remuneration referred to in the preceding sentence does not apply to members of the Management Board.

During the reporting period:

- upon the lapse of the retention period, the phantom shares awarded as non-deferred portion of the variable remuneration for 2019 and the first portion of deferred variable remuneration in 2018 in the total gross amount of PLN 306.8 thousand (38,045 phantom shares at the value per phantom share equalling the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period, i.e. PLN 8.064 thousand) were converted into cash and paid out;
- the second (out of three) portions of deferred variable remuneration for 2018 was settled; the total expected cost will amount to PLN 79.4 thousand (gross), including phantom shares awarded as a short-term benefit payable after the lapse of the retention period, i.e. after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equalling the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 5,450 shares, and the cash amount of PLN 39.7 thousand (gross) paid out as a short-term benefit;
- the first (out of three) portion of deferred variable remuneration for 2019 was settled; the total expected cost will amount to PLN 87.2 thousand (gross), including phantom shares awarded as a short-term benefit payable after the lapse of the retention period, i.e. after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equalling the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 6,364 shares, and the cash amount of PLN 43.6 thousand (gross) paid out as a short-term benefit;
- it was determined that no variable remuneration was awarded for 2020 to persons holding managerial positions identified as having a significant impact on the Bank's risk profile (including members of the Bank's Management Board) due to non-fulfilment of the vesting condition for the variable remuneration (bonus);
- two persons holding managerial positions identified as having a material impact on the Bank's risk profile received a cash bonus set for 2020 in the amount of PLN 10,000 each. Pursuant to Chapter IV Art. 14.4 of the BOŚ S.A. Management Remuneration Policy, the variable remuneration was not subject to deferment and partial payment in shares.

The variable remuneration for 2021 has not yet been determined or awarded.

6.2. Management Stock Option Plan and Employee Share Plan

There was no Employee Share Plan in place in the Bank in 2020 and 2021.

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

Information on the remuneration for key management staff of BOŚ S.A. and other amounts due from the Bank to the present and former officers and directors is provided in note 51 of the Full-Year Consolidated Financial Statements of the BOŚ Group for the year ended December 31st 2021.

The Bank has no pension or similar liabilities towards its former officers and directors.

6.4. Agreements concerning compensation for managers

Agreements concluded with managers provided for the following compensation rules:

- Where the contract with a manager is terminated by the Bank for reasons other than a breach of basic contractual obligations, the manager may receive compensation of up to three 3 times the fixed remuneration, provided that the manager performed the function for at least 12 months prior to such termination; Severance pay amount is set by the Supervisory Board, taking into account the workload, efficiency and performance in the last three years of holding the function as well as the effects of the services performed and the financial results of the Bank and of the business line supervised by the manager concerned.

The above rules were applied as follows: January 1st 2021 - February 9th 2021 - to three members of the Management Board; February 10th 2021 - February 14th 2021 - to four members of the Management Board; February 15th 2021 - December 31st 2021 - to five members of the Management Board.

- Non-competition compensation (for refraining from direct or indirect involvement with a Bank's competitor) for a manager holding the function for at least three months is provided for in the amount of 50% of the fixed remuneration received directly prior to contract termination, payable for six months.

The above rules were applied as follows: January 1st 2021 - February 9th 2021 - to three members of the Management Board; February 10th 2021 - February 14th 2021 - to four members of the Management Board; February 15th 2021 - December 31st 2021 - to five members of the Management Board.

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

The Bank reported that as at December 31st 2021 none of the members of the Bank's Management Board and none of the members of the Bank's Supervisory Board held:

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

VII. NON-FINANCIAL STATEMENT

This document constitutes a mandatory non-financial statement. This is the Bank's fourth non-financial statement, based on the GRI standards and Bank's own indicators. The data provided reflect the situation as at December 31st 2021.

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

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

The Bank is strongly committed to contributing towards the Sustainable Development Goals set out in the UN Agenda 2030 and adopted by UN member countries. A responsible business is not a business driven only by profit, but also by care and a sense of responsibility for the environment, society, economy, clients, shareholders, and employees; operating in compliance with the highest standards of corporate governance.

In line with the Bank's 2021-2023 Development Strategy, in December 2021 the Bank for the first time obtained an ESG rating¹. The overall ESG Risk Rating score obtained by BOŚ S.A. was 19.9, which means that the Bank is at 'Low Risk' of exposure to major ESG issues. The result of the ESG assessment performed by Sustainalytics places BOŚ S.A. in the top 18% of banks and in the top 23% of nearly 15,000 companies worldwide surveyed by Sustainalytics, as of December 2021.

In October 2021, the Bank published its ESG Strategy. The ESG Strategy takes into account the commitments included in the Bank's Business Strategy, defining activities and setting measurable targets to be completed by 2023. It covers internal and external impacts across three pillars: E (environmental factors), S (social factors) and G (governance factors):

- Green change leader,
- Socially active bank,
- Conscious organization.

In its ESG Strategy, the Bank has committed to:

- Actively engage in financing sustainable investment projects;
- Provide comprehensive support and guidance to clients throughout the transition process by leveraging its unique expertise;
- Implement the top standards in managing our environmental footprint;
- Provide ongoing education in support of sustainable economic growth;
- Be a responsible and committed partner in major community initiatives;
- Create a caring and engaging workplace, with clear employment policies that support diversity;
- Conduct business in a transparent manner, using best ESG practices;
- Work towards a sustainable value chain for suppliers and clients.
- Effectively manage ESG risk.

In November 2021, the Bank's Management Board decided to establish the ESG Committee tasked with exercising strategic supervision over the Bank's ESG efforts and ensuring the implementation of the ESG strategy. The Committee is an advisory body for the Bank's Management Board. Its appointment also ensures ongoing

¹ **Copyright ©2022 Sustainalytics. All rights reserved.**

This document (Sprawozdanie Zarządu) contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at <https://www.sustainalytics.com/legal-disclaimers>.

monitoring of the implementation of the BOŚ S.A.'s ESG Strategy. A number of initiatives were undertaken in 2021 in the pursuit of the EGS's Strategy goals, encompassing all the three pillars.

In October, the Bank published its Climate Policy which, among other things, excludes the possibility to provide new financing for thermal coal mining or new coal-fired generating units. The Bank is also getting ready for the implementation, in line with the schedule prescribed by regulatory bodies, of its obligations under Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18th 2020 on establishing a framework to facilitate sustainable investment (so-called taxonomy). In November 2021, the Bank became a member of the United Nations Global Compact (UNGC) - an organisation whose mission is to mobilize a global movement of sustainable companies and stakeholders and to take action for the benefit of people and the environment to create the world to which all should aspire. In December 2021, BOŚ - as the first Polish bank - joined the Science Based Targets (SBTi) initiative of companies striving for climate neutrality. Science Based Targets is an international partnership between the Carbon Disclosure Project (CDP), the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF), seeking to promote climate action, including carbon footprint reduction.

With regard to 'Socially active bank', BOŚ is engaged in educational initiatives and participates in the market dialogue on sustainable financing. On November 22nd 2021, BOŚ organised a conference 'IDEA BUSINESS CLIMATE'. The aim of the conference was to spark a discussion on the role of business in climate change processes and to demonstrate interactions between climate and business processes.

The bank is also committed to caring for employees and creating an engaging workplace, with clear employment policies that support diversity. Initiatives undertaken in 2021 included promotion of employee volunteering with the support of the BOŚ Foundation, building an employer branding strategy and reviewing remuneration policies.

As a Conscious Organisation, the Bank pays particular attention to gradual increasing of disclosure transparency, building a sustainable supply chain and integrating ESG risks into the Bank's risk management policies and procedures. Documents and regulations on ESG issues are available on a dedicated web page on the Bank's website at <https://www.bosbank.pl/ESG/esg/strategia-i-raport-esg>.

As part of our commitment to a sustainable supply chain, on December 1st 2021, the Bank implemented the 'BOŚ S.A. Supplier Code of Conduct'. The Bank has developed a template Supplier ESG Declaration and standard contractual clauses concerning ESG. In a special declaration, every new supplier of BOŚ S.A. undertakes to adhere to and cause its subcontractors to adhere to the ESG standards.

In view of the change dynamics, the Bank offers the best possible risk management solutions. In 2021, BOŚ Bank S.A. introduced ESG risks assessment for potential borrowers as part of its overall credit risk assessment process. Every decision on providing financing to a business or local government institution is preceded by an assessment of the prospective client's engagement in environmental protection (E), care for social issues (S), and compliance with corporate governance standards (G).

Taxonomy

Description and indicators

In 2021, the Bank began work on implementing the provisions of Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18th 2020 establishing a framework to facilitate sustainable investment, amending Regulation (EU) 2019/2088. The implementation of the taxonomy is intended to allow for an unambiguous definition of the concept of environmentally sustainable investments for the entire EU market. The taxonomy is a set of criteria whose fulfilment means that an activity can be considered environmentally sustainable.

It is particularly important for the Bank, which has promoted pro-environmental investments that supporting sustainable development since its very inception. In line with clients' needs, the Bank is expanding its range of products and financial instruments dedicated to green investments. It consistently develops an environmentally sound portfolio to support green transition. The Bank ensures that projects it finances support environmental challenges. It provides clients with expert support to help them deliver positive results for the environment.

Pro-environmental activities financed by the Bank include: reduction of consumption of natural resources, improvement of energy efficiency, increased use of renewable energy sources, sustainable construction – these are all taxonomy-eligible areas of activity.

BOŚ is working on implementing the provisions of the directives and regulations. The EU taxonomy regulations are still being refined in the European Commission, and there is limited amount of data on taxonomy-eligible activities of the Bank's clients. As a result, the Bank has not yet fully aligned its products and internal classification of green assets with the taxonomy.

In line with its Development Strategy for 2021-2023, the Bank is building unique expertise in four priority environmental sectors, i.e., energy, transport and logistics, construction and manufacturing.

The introduction of the EU Taxonomy has been included in the ESG strategy of the Bank. One of the objectives of the ESG strategy is to increase exposure and growth of the portfolio financing sustainable environmental objectives and to introduce the EU Taxonomy in line with the regulatory timeline.

GAR indicator

The Green Asset Ratio (GAR) is designed to represent the share of green assets allocated to taxonomy-eligible activities in the Bank's total assets.

For reasons relating to how the EU legislation is drafted, the taxonomy reporting obligation for 2021 has been limited to, inter alia, the calculation of the simplified GAR.

As part of the measures taken in accordance with the regulatory guidelines, entities defined as public interest entities were identified; these are companies meeting the requirement of Article 19a or Article 29a of Directive 2013/34/EU (the provisions of the Directive were implemented into Polish law in the Accounting Act of September 29th 1994). These regulations apply to public interest entities with the average number of employees above 500 and to public interest entities that are the parent of a large group with the average number of employees above 500 on a consolidated basis.

An important challenge affecting the information on indicators presented in the report is the obligation to publish them, on the same date, for financial institutions and non-financial undertakings. Such reporting deadlines made it impossible to use the data contained in the non-financial reports of companies that are clients of the Bank.

As part of the reporting work undertaken, the Bank surveyed institutional clients asking them to confirm and indicate directly the activities covered by the taxonomy. It is important to note that participation in the survey was voluntary for clients.

The GAR was calculated using data that the Bank's clients provided earlier in the lending process and data from questionnaires that were distributed to a group of clients subject to non-financial reporting requirements for 2021.

Some of the clients did not respond to the questionnaire, thus the assets of those entities were not eligible for the taxonomy purposes, due to the lack of validated data allowing for the correct verification and qualification of the clients and their activities.

According to the survey, in most cases the GAR indicator covers activities eligible under the first environmental objective of climate change mitigation. From among the Bank's clients identified as having non-financial reporting obligations, as many as **50% indicated activities that qualify as taxonomy eligible**. This is not directly reflected in the value of the GAR, as most of the Bank's institutional clients are not mandated to report non-financial disclosures.

Pursuant to Regulation (EU) 2020/852 Article 8(1) of the European Parliament and the Council, an obligation has been imposed on companies subject to Article 19a or 29a of Directive 2013/34/EU of the European Parliament and the Council to disclose how and to what extent their activities are related to environmentally sustainable business activities. In accordance with Commission Delegated Regulation (EU) 2021/2178, during the transitional period from January 1st 2022 to December 31st 2023, the Bank will disclose the information indicated in Article 10(3) of that Delegated Regulation.

Percentage share of exposures to taxonomy-eligible economic activities in total assets (GAR)	2.18%	Exposures to non-financial undertakings subject to non-financial reporting obligation*
Percentage share of exposures to taxonomy-non-eligible economic activities in total assets	1.73%	Exposures to non-financial undertakings subject to non-financial reporting obligation
Percentage share of exposures to non-financial undertakings that are not required to publish non-financial information in total assets	34.32%	Exposures to non-financial undertakings that are not subject to non-financial reporting obligation
Percentage share of exposures to central governments, central banks and supranational issuers in total assets	29.52%	Exposures to government institutions and supranational issuers (including exposure in the trading book)
Percentage share of derivatives in total assets	0.67%	Derivatives presented in the trading book
Percentage of trading book in total assets	0.76%	Trading book (including derivatives)
Percentage share of interbank demand loans in total assets	1.70%	Interbank demand loans
Total assets	PLN 20.6 billion	Total assets presented in accordance with the prudential consolidation of the Group

* Exposures to households not included in the numerator

These disclosures have been prepared to the best of the Bank's knowledge and represent the taxonomy reporting requirements for credit institutions during the transition period.

The ratios have been calculated on a prudentially consolidated basis in accordance with Regulation (EU) 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and are consistent with the Bank's FINREP reporting. As at December 31st 2021, for prudential consolidation purposes the Group of Bank Ochrony Środowiska S.A. consisted of: Bank Ochrony Środowiska S.A. (the parent), and Dom Maklerski BOŚ S.A. and BOŚ Leasing – EKO Profit S.A. (direct subsidiaries of the Bank).

Additional EU Taxonomy disclosures

The Bank provides additional disclosures for exposures to households and local government entities that may in the future qualify or be eligible for the taxonomy.

Based on examined mortgage-backed exposures to households and to local government units, the Bank has determined that the aggregate share of the exposures in total assets is 15%.

ETHICS

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

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

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

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

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

Ethical values and standards are the basis of the Bank's everyday activity. All of the listed documents and internal regulations are available in the Polish language on the Intranet. Knowing the Code of Ethics is one of the requirements imposed on new hires during the induction process (they sign a relevant statement of familiarity with the Code). At Dom Maklerski BOŚ, the preliminary employee training covers the internal rules and regulations, including those pertaining to management of conflicts of interest, proprietary trading and anonymous reporting of violations.

At the Bank, interpretations of ethical concerns are provided by the Compliance Department, which – in cooperation with other units – proposes and implements amendments to the Code of Ethics. It also conducts periodic internal campaigns to promote desired behaviours, including awareness of the importance of risk in the Bank's business, and to foster a sense of shared responsibility among employees for compliance risks. In matters related to ethics and compliance, every employee of the Bank may contact the Director and employees of the Compliance Department (information is available on the Intranet).

The Bank provides a series of mandatory training courses for newly hired employees and recurring courses for existing employees covering, among others, prevention of money laundering and financing of terrorism, personal data protection, cyber security, sale of insurance products, mortgage lending, as well as basic and extended MiFID training.

The Bank is expanding its mandatory training programme and additional training is planned this year: in anti-corruption and in the internal control system.

A similar function at the Brokerage House is performed by the Compliance Department. Ethical standards and behaviours are promoted at the Brokerage House to strengthen the compliance culture, in particular through employee training. At DM BOŚ, the organisational units are responsible for, among other things: ensuring compliance of the operations of DM BOŚ with the generally applicable provisions of law, internal regulations and the standards of conduct adopted by the Brokerage House, including ethical standards. Any employee of DM BOŚ, through a dedicated email account, can reach out to the Compliance Department for advice.

Any instance of non-compliance at the Bank is subject to the provisions of the "Procedure for anonymous reporting of violations (...)". Every such notification is reported to the President of the Management Board (and if it concerns a member of the Management Board or a member of the Supervisory Board - to the Supervisory Board). The Bank guarantees full anonymity to anyone reporting violations.

The Brokerage House also has in place a "Policy for reporting violations at Dom Maklerski BOŚ", whose purpose is, among other things, to exercise oversight over compliance by DM BOŚ with the law, in particular to enable reporting of actual or potential violations of anti-money laundering and counter-terrorist financing regulations in force at the Brokerage House, as well as with ethical standards. The Policy applies to all employees of the Brokerage House, regardless of their position and the form of their employment relationship, and to persons acting on behalf of the Brokerage House. If a notification concerns a Member of the Management Board, then members of the Management Board as well as the Chairperson and Deputy Chairperson of the Supervisory Board have access to the information contained in the notification. The Management Board of Dom Maklerski BOŚ guarantees anonymity of the person reporting an infringement and the person alleged to have committed the infringement, including ensuring that no repressive or discriminatory actions or other actions constituting unfair treatment of an employee will be taken against the reporting person.

Compliance policy

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

Compliance within the framework of the Bank's internal control system is supervised by the Supervisory Board in cooperation with the Internal Audit Committee. The Board approves the Compliance policy and assesses effectiveness of compliance risk management (on an annual basis), as well as adequacy and effectiveness of the internal control system (at least once a year).

DM BOŚ also has in place a comprehensive internal control system. A system for supervising compliance of operations with the law has also been implemented at DM BOŚ, serving to disclose and prevent breaches of obligations arising from the law, including in particular those regulating brokerage activities, and within this system the key role is played by an internal unit of DM BOŚ performing the function of compliance with the law in accordance with the applicable legal regulations.

Activity of the Bank and Dom Maklerski BOŚ is subject to supervision by the Polish Financial Supervision Authority.

EMPLOYEES

The HR policy, its processes and regulatory framework as well as the organisational culture contribute to enhancing the Bank's core values and standards, including active preventing of any forms of workplace discrimination and bullying, ensuring equality of opportunities for all, and promoting diversity.

People are the most important asset of the BOŚ Bank Group. The concern for attracting and retaining the best employees is observable at all stages of HR management - from headhunting through to providing development opportunities to employees.

The Bank continuously monitors the employment indicators, including staff turnover. The management information system provides data on the needs, opportunities and challenges involved in HR management. The Bank priorities in this respect include enhancing employee performance, loyalty and satisfaction.

DM BOŚ also deploys a comprehensive employment policy. Its key objectives are consistent with those of BOŚ Bank and include:

- providing competent staff having the required level of qualifications, job skills and professional experience;
- maintaining employment at an optimum level and continuously monitoring of staffing needs in individual organisational units;
- efficient and prompt filling of vacancies as they emerge;
- developing and enhancing qualifications of employees.

Employment in the BOŚ Group by contract type

	WOMEN	MEN	TOTAL
Employees on a probationary period	5	2	7
Employees with fixed-term contracts	153	91	244
Employees with permanent contracts	683	457	1,140
Employees with temporary replacement contracts	24	8	32
Employees with management service contracts	2	5	7
Self-employed persons engaged by the Group under employee terms and conditions	8	14	22
Employees with internship contracts	-	-	-
TOTAL	875	577	1,452
TOTAL EMPLOYEES WITH CONTRACTS OF EMPLOYMENT	865	558	1,423

Employment at the BOŚ Group by type of permanent contract and by gender

Employees with permanent contract working:	WOMEN	MEN	TOTAL
Full-time	665	448	1,113
Part-time	18	9	27
TOTAL	683	457	1,140

Total number of BOŚ Group employees working full-time under permanent employment contract by gender and region

PROVINCE	WOMEN	MEN	TOTAL
Dolnośląskie	19	12	31
Kujawsko - pomorskie	26	7	33
Lubelskie	24	8	32
Lubuskie	7	1	8
Łódzkie	15	9	24
Małopolskie	38	14	52
Mazowieckie	539	412	951
Opolskie	5	1	6
Podkarpackie	22	6	28
Podlaskie	19	6	25
Pomorskie	23	9	32
Śląskie	32	32	64
Świętokrzyskie	5	0	5
Warmińsko - mazurskie	19	7	26
Wielkopolskie	23	15	38
Zachodniopomorskie	19	4	23
TOTAL	835	543	1,378

Total number and percentage of new employees at the BOŚ Group by gender and age

	WOMEN			MEN			TOTAL
	≤ 29	30-50	51 ≤	≤ 29	30-50	51 ≤	
AGE:							
Number of new employees	37	134	15	23	95	19	323
Percentage of new employees	11%	41%	5%	7%	29%	6%	100%

Total number and percentage of terminated employment contracts at the BOŚ Group by age, gender and region

	WOMEN			MEN			TOTAL
	≤ 29	30-50	51 ≤	≤ 29	30-50	51 ≤	
AGE:							
Number of terminated contracts	28	99	26	21	70	19	263
Percentage of terminated contracts	2%	7%	2%	1%	5%	1%	18%

The BOŚ Group supports the policy of zero tolerance for any discrimination (whether direct or indirect) in employment.

The Bank's commitment to diversity means that no one is discriminated against, whether directly or indirectly, because of their gender, age, disability, medical condition, race, nationality, ethnicity, religion, denomination, irreligion, political views, union membership, sexual orientation, gender identity, family status, lifestyle, basis of employment, and other grounds that may give rise to discriminatory practices.

The Bank's diversity acceptance level is monitored by means of Employee Opinion Survey.

The following regulations are in place in the Bank to support diversity in employment:

- Diversity Policy applicable to all Bank employees, regardless of the position held, which aims to:
 - Support the Bank in pursuing its strategic objectives through the implementation of the diversity principle,
 - Promote diversity hiring,
 - Create a friendly working environment where every employee feels respected and valued;
- Diversity Policy applicable to members of the BOŚ S.A. Management Board, which aims to:
 - Promote diversity in appointing members of the Bank's Management Board,
 - Support the pursuit of the Bank's strategic objectives by ensuring diversity among the members of the Management Board,
 - Ensure that members of the Bank's Management Board represent a broad spectrum of characteristics and competencies, such as diverse skills, educational background, professional experience, knowledge, gender, and age.

Bank Ochrony Środowiska acknowledges its responsibility for respecting and protecting fundamental human rights and undertakes to respect the same in accordance with the United Nations Universal Declaration of Human Rights as well as other internationally recognised norms and standards.

The Bank's *Human Rights Protection Policy* describes how human rights are supported and respected in the Bank through:

- Non-discrimination,
- Freedom of association,
- Opposition to forced labour,
- Appropriate working and pay conditions,
- Occupational health and safety,
- Integrity,
- Respect for privacy,
- Whistleblowing procedures.

The Bank seeks to create a friendly working environment and organisational culture based on mutual respect and to prevent any discrimination or bullying.

Diversity policy in practice:

- Women account for the vast majority in the BOŚ Group's workforce structure (67%);
- 37.5% of the senior management members are women;
- The share of women in other managerial positions is 64%;
- Senior management members are graduates of various faculties in Poland and abroad (including economics, engineering, IT, law, linguistics, and others);
- 7.8% (5 persons) of the senior management members have worked for the Bank for more than 15 years;
- The average employment period with the Bank for women is 7.13 years, and for men is 2.23;
- Senior management members have diverse professional experience gained in Polish and European financial and non-financial undertakings;
- The Bank hires foreigners, retirees and retirement-eligible persons as well as persons with disabilities;
- The percentage of employees with disabilities is 1.2%.

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

	MANAGEMENT BOARD AND OFFICERS			SENIOR AND JUNIOR MANAGERS			OTHER EMPLOYEES		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
AGE ≤ 29	0	1	1	0	1	1	67	57	124
AGE 30-50	24	51	75	96	62	158	463	252	715
AGE ≥ 51	9	32	41	39	21	60	170	85	255
TOTAL	33	84	117	135	84	219	700	394	1,094

Percentage of staff at the BOŚ Group by employment category, gender and age

	MANAGEMENT BOARD AND OFFICERS			SENIOR AND JUNIOR MANAGERS			OTHER EMPLOYEES		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
AGE ≤ 29	0%	0%	0%	0%	0%	0%	5%	4%	9%
AGE 30-50	1%	4%	5%	7%	4%	11%	32%	18%	50%
AGE ≥ 51	1%	2%	3%	3%	1%	4%	12%	6%	18%
TOTAL	2%	6%	8%	9%	6%	15%	49%	28%	77%

Employment conditions

BOŚ Bank provides equal opportunities in employment, remuneration and development. All Bank's employees are responsible for creating a friendly and supporting environment at work, free from any form of discrimination, bullying or harassment (excerpt from the Code of Ethics). All employees of the Bank and DM BOŚ have equal rights as regards commencement and termination of their employment, terms and conditions of employment, promotion and access to development programmes. DM BOŚ continuously monitors coherence of the remuneration system, taking into account the specific nature of the finance sector:

- The Code of Ethics, the Work Rules and the Anti-Bullying Policy contain provisions e.g. on preventing any form of discrimination (based on gender, age, disability, race, religion, nationality, political views, union membership, ethnicity, denomination, sexual orientation, or resulting from the form or period of employment);
- The Bank's recruitment procedures comply with the standards set out in the EU Equal Treatment Directive; Recruitment is based on objective criteria and pre-defined rules and principles;
- Job valuation at the Bank is based on objective, merit-based and anti-discriminatory criteria; Remuneration depends on the qualifications and skills, accountability involved and professional experience, as well as remuneration practices in the banking sector;
- All Bank's employees have access to trainings adequate for their specific needs and experience; The Bank is strongly committed to investing in development of the employees who stand out;
- Since 2017, the Bank has embarked on a programme 'The Bank open to the disabled persons', seeking to offer jobs (telework) to persons with officially declared disabilities;
- Annual employee evaluation is based on a competency model and performance appraisal seen as the key objective criteria for measuring knowledge and commitment of individual employees;
- Every Bank's employee is appreciated and eligible to receive variable remuneration for their work.

Moreover, Bank Ochrony Środowiska S.A. respects the principles of diversity and human rights through:

1. Non-discrimination – the Bank opposes all forms of direct and indirect discrimination based on: gender, age, disability, medical condition, race, nationality, ethnicity, religion, denomination, irreligion, political views, union membership, sexual orientation, gender identity, family status, lifestyle, form, scope and basis of employment, other forms of cooperation and other circumstances which may give rise to discriminatory practices;
2. Freedom of association – the Bank respects the right of employees to freely associate in trade unions and to collective bargaining;
3. Opposition to forced labour – the Bank opposes all forms of worker exploitation, including child labour, forced or compulsory labour and other forms of coercion, both mental and physical, against employees, both

hired by the Bank and across its supply chain, and strongly condemns all forms of human trafficking and exploitation.

4. Appropriate working and pay conditions – the Bank is committed to creating a friendly working environment based on the mission and values contained in the Bank's Strategy; the Bank cares about the work-life balance of employees and provides fair remuneration and working conditions. Detailed provisions concerning working conditions and remuneration are contained in the Work Rules, Remuneration Rules and Rules on Variable Remuneration Systems;
5. Occupational health and safety – health and safety of employees is a major concern for the Bank, hence it actively engages in supporting safe and healthy working environment. The Bank has in place standards for prevention, assessment and management of risks involved in its operations. It also promotes and encourages corporate culture focused on health and safety;
6. Integrity – the Bank perceives any form of corruption as a violation of human rights and, therefore, unacceptable. To that effect the Bank has implemented, among other things, the Code of Ethics and the Money Laundering and Terrorism Financing Prevention Methodology, which form a corporate reference framework addressing corruption, specifying the rules and principles for preventing or mitigating the risk of corruption;
7. Respect for privacy – the Bank is aware of the importance of ensuring adequate security standards for personal data processing. We respect the privacy rights of all our employees and stakeholders and undertake to use the processed data and information in a lawful manner;
8. Whistleblowing procedure – the Bank has implemented a procedure for anonymous reporting of violations of law and Bank's ethical procedures and standards. There is also a dedicated communication channel available to employees for anonymous reporting of any breach of ethical standards;
9. Respect for diversity – the Bank has implemented Diversity Policy with a view to, among other things, creating a friendly working environment where every employee feels respected and valued, and can fulfil their individual potential.

Average base pay at the BOŚ Group - female to male ratio (excluding the remuneration of the Management Board of BOŚ S.A. and DM BOŚ S.A.)

Management and executive positions:	
BOŚ	76%
DM BOŚ	86%
Non-managerial positions:	
BOŚ	80%
DM BOŚ	85%

Average remuneration paid at the BOŚ Group - female to male ratio

Management and executive positions:	
BOŚ	77%
DM BOŚ	82%
Non-managerial positions:	
BOŚ	81%
DM BOŚ	86%

Lowest level employee pay at BOŚ S.A. to the minimum pay in the region, by gender and region

PROVINCE	WOMEN	MEN
DOLNOŚLĄSKIE	150%	107%
KUJAWSKO - POMORSKIE	152%	161%
LUBELSKIE	116%	132%
LUBUSKIE	143%	179%
ŁÓDZKIE	129%	-
MAŁOPOLSKIE	127%	143%
MAZOWIECKIE	129%	131%
OPOLSKIE	134%	143%
PODKARPACKIE	139%	-
PODLASKIE	129%	-
POMORSKIE	140%	-
ŚLĄSKIE	135%	-
ŚWIĘTOKRZYSKIE	133%	-
WARMIŃSKO - MAZURSKIE	125%	146%
WIELKOPOLSKIE	134%	-
ZACHODNIOPOMORSKIE	147%	179%
TOTAL FOR POLAND:	145%	128%

Additional benefits

The BOŚ Group offers various employee welfare programmes and benefits, both the ones commonly found in business (such as additional financing from the Company Social Benefits Fund) and unique for the Bank. All employees are eligible to receive additional benefits, regardless of whether they work part-time or full-time or under a fixed term or permanent contract.

Employees of BOŚ S.A. and DM BOŚ have access to private healthcare provided through a network of healthcare facilities across the country, with a wide range of healthcare specialists.

Employee commitment

Following the first edition of the Employee Opinion Survey conducted in May 2021, the Bank has taken numerous measures addressed to employees and aimed at creating a friendly working environment, based on commitment, professionalism, cooperation and respect.

The Bank is particularly committed to initiatives strengthening the organisational culture and improving atmosphere at work. Our organisational culture, as one of the foundations of corporate strategy, is designed to support the Bank's strategic goals. The Bank is committed to a value-based culture, where employees can develop their competencies and pursue their professional goals. In the course of work on the strategy, the Bank's four core values, constituting the Bank's DNA, were formulated: Professionalism, Respect for others and the environment, Commitment, Collaboration. To communicate the values to the employees and to create a forum where they could engage in discussion and, more importantly, in collaboration, the 'Autumn of Values' project was developed. The opportunity to share opinions and view was used both by the Management Board members and employees. All employees had access to topical webinars held by external and internal experts and to micro-learning materials dealing with the power of values, their importance in life and business, commitment, or feedback. The materials were made available on the e-learning platform to view at the employees' convenience. The project also involved participation in contests and dedicated volunteer initiatives, such as 'Helping by Giving - BOŚ Supports Animals'. Used clothing was collected to give it a second life. Additionally, every kilo of clothing collected during the campaign translated into PLN 1.00 donated to the animal shelter in Korabiewice.

Clothes were collected in the head office and branches and the campaign participants were Bank employees as well as other people. Over half a ton of clothes, shoes, bags and accessories were collected, 743.48 kg to be exact!

A key finding from the Employee Opinion Survey was the employee engagement rate. It is the most reliable indicator showing the percentage of employees identifying themselves with the Bank and effectively engaging in their job duties and tasks, while successfully living the values of the organisation. This is a fundamental aspect of the survey that affects business indicators. The survey showed that the employee engagement rate was 32% - 18pp below the market average and 12pp below the banking sector average. With the new ESG strategy in place supported by various initiatives, the Bank expects to see the increase in the employee engagement rate and, consequently, an overall performance improvement in this key area.

Apart from the areas for improvement, the survey also revealed the Bank's strengths. 62% of respondents expressed their positive view on collaboration. The most appreciated element (76% of responses) was being in contact with colleagues and the feeling that they can count on them, which was particularly important in 2020 and 2021, when the COVID-19 pandemic forced changes to working models. In addressing the challenges and needs posed by the new remote work model, the Bank provided employees with the necessary technical solutions and implemented new tools, such as MS Teams and internal instant messenger systems. This has significantly contributed to maintaining relationships and contacts among employees. 73% of survey respondents mentioned teamwork as a key to success in everyday work, giving a sense of belonging to the organisation and enabling cooperation and joint pursuit of the set business goals. The statement that colleagues share knowledge and experience obtained the same percentage of positive responses. As regards relationships with the superiors, 61% of employees feel that communication is frank and open, and 60% say they can count on their superiors for support. This result is all the more satisfying for BOŚ because good atmosphere and support from superiors - apart from the financial conditions - are among the key motivating factors for the Bank's employees.

The work-life balance results of the survey were also optimistic, particularly in view of the fact that it was conducted during a difficult time of the COVID-19 pandemic. As many as 68% of employees positively assessed the support received from their superiors in connection with the pandemic, and 67% appreciated the possibility of remote working and clear rules implemented in this area. The survey results prove that we did good as an organisation and team, being able to help one another and cope with various challenges that have significantly impacted our professional and personal lives.

The Bank has a solid foundation for strengthening its organisational culture, create the best possible workplace and increase employee engagement. As a green bank, BOŚ S.A. forms a team that works together for environment and green transition of the economy as a whole and of its clients. The shared mission is what truly unites the Bank's

employees and gives them additional motivation in everyday work. Our priority will be to further develop the skills and qualifications of employees and to introduce a new agile and hybrid working model.

Freedom of association

With a formal 'Human Rights Protection Policy' in place, BOŚ S.A. has acknowledged its responsibility for respecting and protecting fundamental human rights and has undertaken to respect the same in accordance with the United Nations Universal Declaration of Human Rights as well as other internationally recognised norms and standards. In pursuit of the policy the Bank, among other things, respects the employees' freedom of association and collective bargaining rights.

The Bank's employees exercise their right to freedom of association by regularly electing their representatives. Elections are organised by the employer within the deadlines set forth in the relevant laws:

- Election of the Work Council members - Act of April 7th 2006 on Informing and Consulting Employees;
- Election of employee representatives - art. 237^{13a} of the Labour Code Act of June 26th 1974.

There is no collective bargaining agreement in force in the Bank; however, pursuant to the above-mentioned laws, apart from the Employee Representatives, there is a Works Council operating on the basis of an agreement concluded with the employer on January 29th 2008, which sets out the principles for informing and consulting employees on various matters, including:

- 1) Bank's operations and economic situation, and changes anticipated in this respect;
- 2) Headcount and employment structure, and changes anticipated in this respect;
- 3) Activities that may significantly affect the work organisation and basis for employment.

The employer, on an ongoing basis, closely cooperates with the Bank's employee representative bodies and consults its initiatives with them. Regular meetings are held to share information and undertake joint actions with a view to building an organisation founded on the core values outlined in the Bank's Strategy (respect for others and the environment, cooperation, professionalism, commitment).

The employer is open to and have understanding for views and concerns expressed by employees. Discussions on issues raised by employees or new initiatives and proposed solutions are conducted in a spirit of mutual respect, without the risk of negative reaction from the employer. Ideas submitted by employees are subject to a detailed feasibility and purposefulness analysis.

The relationship between the employer and employee representatives is based on cooperation and understanding of employee needs.

Best HR practices

at the Bank:

- Succession plan for key positions;
- Hiring of internal coaches;
- Support in enhancing professional skills and qualifications, co-financing for training courses, postgraduate studies, MBA;
- Attractive voluntary employee insurance scheme;
- Free healthcare for employees available via Enel-Med healthcare facilities network;
- Preferential healthcare packages for family members;
- Co-financing of employee PPK (Employee Capital Plans) contributions (1.5% of employee remuneration);
- One day off per year for volunteer or environmental activity;
- Remote work option;
- Access to MyBenefit platform (co-financing of some benefits, such as MultiSport card from the Company Social Benefits Fund (ZFŚS) and a broad offer for children and of tourist and entertainment services at attractive prices);
- Christmas benefits (cash payments);

- Free access to a virtual platform offering more than 75 thousand e-books and audiobooks on various topics to borrow and read/listen to on up to four devices;
- Voluntary free vaccination against flu;
- 'Online Psychologist' programme offering counselling via phone. The Bank employees have access to professional psychological support in difficult work and life situations. The counselling is provided remotely and is available to all employees seven days a week;
- Antigen testing for COVID-19 was offered to employees during the fourth wave of the pandemic prior to any onsite training with more than eight with participants,
- Webinars for the Bank's employees on environmental and social issues:
 - 'Building Resilience. How to Deal with Internal and External Pressure', intended to enhance employees' resilience (physical, mental and emotional) in everyday life;
 - 'Christmas with less waste!';
 - 'The Power of Values';
 - 'Engagement';
 - 'Green Habits at Work and at Home';
 - A webinar on ESG issues;
- 'Summer HR Academy' - a series of on-line trainings covering a number of topics, including:
 - How to Build your Creativity,
 - Building Mental Resilience,
 - Negotiations,
 - Levels of Interpersonal Communication,
 - Empathy and Assertiveness in life and at work, 6) Empathy and Assertiveness in Sales,
 - All you Want to Know about MsTeams,
 - PowerPoint,
- Free online workshop on ECO-gift.

at Dom Maklerski BOŚ S.A.:

- Internal training courses developed and conducted by selected DM BOŚ S.A. specialists with trainer skills, sharing their expertise with other employees;
- Support in enhancing and developing professional skills and qualifications through co-financing of training, courses, post-graduate studies and participation in industry conferences and through providing access to in-house reference material collection;
- Attractive voluntary life and health insurance for employees and their families;
- Free health care for employees available via the LUX MED healthcare facilities network, including preferential packages for family members;
- 'Home Office' policy;
- Christmas gifts for employees' children;
- Voluntary free vaccination against flu;
- Access to in-house library resources;
- Workshops and meetings on healthy diet and lifestyle.

Development

Development of an organisation is not possible without the development of employees who are its biggest strength; therefore, BOŚ is constantly investing in enhancing the skills and qualifications of its employees. This commitment is reflected in key documents – a comprehensive training and development policy which applies to all employees and is a practical example of implementing the principle of equal access to development opportunities. The training courses offered cover a broad spectrum of topics, from environmental issues through product overview to highly specialist external trainings. Every employee, regardless of their length of service with the Bank, can participate in trainings.

BOŚ S.A.'s expert team stands out with expertise and experience in environmental issues and in financing and commercialisation of green business projects. Our clients can rely on their support when engaging in cooperation with the Bank. The Bank is aware of the dynamic developments and new regulations concerning ecology and environmental protection. Hence, further initiatives are planned seeking to develop the experts' professional skills and qualifications through their participation in training courses and seminars organised by prominent institutions.

Middle and senior management at BOŚ S.A. is offered participation in a competence development programme to help them become better team leaders. A manager development programme offers participation in a variety of training courses, including remote team management, effective recruitment, goal setting, progress evaluation, giving feedback, preventing workplace bullying and discrimination, manager as a sales leader and sales team management, leadership and coaching by feedback.

To ensure high quality of training courses provided by BOŚ, they are continuously evaluated for efficiency, satisfaction of participants and the level of knowledge gained by them, and constantly improved. This applies both to onsite training and e-learning.

All new employees receive induction training, combining training provided by internal experts and supplementary e-learning tools.

All trainings are designed to support employee development through providing them with opportunities to gain knowledge useful in their everyday work. They also contribute to support employees in development and preparation for new roles they may take on within the organisation, for example by participating in internal recruitment.

Average number of training hours per employee by employment category

EMPLOYMENT CATEGORY	WOMEN	MEN	WEIGHTED AVERAGE
Management Board members and officers:			
BOŚ	159	112	129
DM BOŚ	18	3	6
Senior and junior managers			
BOŚ	15	10	13
DM BOŚ	14	2	8
Other administrative staff			
BOŚ	23	29	25
DM BOŚ	8	2	4

New employees of DM BOŚ receive induction training comprising training conducted by specialists in specific areas and internal e-learning courses. Existing employees receive regular refreshment training for updating their knowledge, as required for their respective positions.

The purpose of trainings is to prepare employees to effectively perform their duties, but also to assume new roles within the organisation through internal recruitment procedures. All training and development activities,

including e-learning, are subject to evaluation for effectiveness, trainee satisfaction and the level of knowledge gained.

Safety at work

In view of the global COVID-19 pandemic, Bank Ochrony Środowiska S.A. has undertaken a number of steps in order to curb the impact of external factors on the Bank's operations and on how the Bank is perceived by clients and employees, while ensuring the highest possible safety standards, including, in particular:

- Disinfection of the Bank's Head Office and outlets using ozone treatment and fogging;
- Furnishing the Bank's Head Office and outlets with antibacterial soap, hand sanitisers, and disinfectants for working surfaces;
- Providing direct client service desks and stands with protective screen guards and disposable gloves;
- Providing all employees with reusable masks;
- Ensuring the possibility of disinfection of the Bank premises by means of ozone treatment and fogging after any suspicion of contact with a person infected with COVID-19;
- Disseminating internal communications raising employees' knowledge and awareness about epidemiological security issues;
- Purchasing contactless thermometers for measuring body temperature;
- Purchasing and installing devices for automatic measurement of body temperature of persons entering the Bank's premises;
- Purchasing disinfectant doormats;
- Launching 'Online Psychologist' project providing remote psychological counselling. The Bank has provided employees with access to professional psychological support in difficult work and life situations. The counselling is provided remotely and is available to all employees seven days a week;
- COVID-19 testing available to employees.

The BOŚ Group provides its employees with safe and ergonomic work stations. All employees receive obligatory OHS induction training and periodic refreshment training followed by an OHS knowledge test. The training is conducted by internal and/or external experts. The scope of training is adapted to the potential hazards and working conditions of a specific position/job.

In 2021, there were three minor accidents at work resulting in injury. The overall injury rate (IR) was 2.6.

Support for employees during the pandemic

The Bank continues to equip employees with additional computer equipment for remote work and simultaneously replaces desktop computers with notebooks. Every employee may choose to work remotely, if the position allows.

A cell phone replacement programme has been introduced for employees using a company smartphone for more than 3 years.

A new method of the so-called Hybrid Modern Authentication (HMA) in Outlook has been implemented. As a result, contact synchronisation errors reported by employees have been eliminated and new employees have a company phone with active Outlook and Teams applications and contacts to all bank employees from the very first day of their employment with the Bank.

Employees using company internet access via a mobile phone to work remotely (due to lack of or poor internet connection at home or because they have used up their mobile data transfer package) received LTE modems with an additional 20GB data transfer limit.

Sports activity of employees

Being green means caring about the environment, but also about one's health. Therefore, BOŚ S.A. encourages its employees to engage in sports. Active lifestyle is not just one of the commitments made by the Bank's employees; it is a way to spend free time in the spirit of healthy competition. A considerable number of BOŚ employees are members of twelve sports sections where they can practice their favourite disciplines. Our volleyball team has regularly participated in the amateur business league for over ten years. In 2021, it took the second place in the Let's GO Volleyball Division II. The Bank's football team participated in the ELitLiga Business Football League. Every year the Bank's team takes part in the Polish Bank Association Cup sailing race. During the winter season, our ski section participated in a training camp in Italy, where they could improve their skiing skills. In autumn, a female representative of the cycling section took part in an MTB Marathon Series Gdańsk, Wejherowo, Elbląg event. Information on achievements of selected sports sections has been published on the intranet.

Planned supplier verification activities; Implementation of green procurement policy

The Bank views its responsibility broadly, as encompassing not only the employees or clients, but also the supply chain. Being a financial institution, it has a limited supply chain; nonetheless it makes continuous effort to ensure that its suppliers comply with the principles of sustainable development.

The Bank has introduced 'BOŚ S.A. Supplier Code of Conduct', forming a foundation on which the Bank and its suppliers want to build and maintain their relations based on integrity, trust and shared responsibility for business practices in health and safety, human rights, business ethics, care for employees and concern for the natural environment.

Every prospective supplier participating in a procurement procedure undertakes in a special written declaration submitted along with their offer to comply and to cause its subcontractors to comply with the Code of Conduct. Contracts signed with successful suppliers selected under a procurement procedure contain appropriate clauses and the Code of Conduct is a standard attachment to every contract and purchase order.

Supplier declarations are mandatory for all procurement procedures, i.e. for procurements below the threshold of PLN 20,000 (gross) conducted independently by individual organisational units of the Bank's Head Office and above this threshold, conducted by the Procurement Department.

In line with the BOŚ S.A. Procurement Policy, heads of individual organisational units of the Bank's Head Office conducting independent procurement procedures, prepare monthly statements on completed procurement procedures specifying the type, value and results of every procurement procedure as well as the information on signing the Code of Conduct by the relevant supplier.

'BOŚ S.A. Supplier Code of Conduct' also contains provisions on control activities intended to build a sustainable supply chain by, among other things, monitoring suppliers and taking action to exclude those who do not meet the Bank's requirements in this respect.

Every purchase is subject to strict provisions of a separate contract/order. The purchases include services (IT, legal, consulting, cleaning, marketing) and goods (IT hardware, software, advertising materials, office supplies, furniture), etc.

Implementation of changes in supply chain monitoring and evaluation requires time and considerable resources to verify suppliers and develop detailed regulations applicable to them. The process also involves the Bank's existing partners. The Bank has published ESG principles in a document 'BOŚ S.A. Supplier Code of Conduct' and takes measures to integrate them into its procurement policy.

THE ENVIRONMENT

As a Polish leader in financing green solutions, the Bank strives to raise among its retail and corporate clients broadly understood environmental awareness covering issues such as environmental protection, organic food, healthy lifestyle, care for one's surroundings, etc. BOŚ S.A., being a green bank, is an example of how financial institutions can contribute to sustainable development.

Its environmental policy encompasses a number of initiatives and projects aimed at minimising the Bank's environmental footprint,

focusing, in particular on:

- continuous reduction of energy consumption (energy-saving equipment and lighting systems, including ad lighting); dawn to dusk sensors, smart air conditioning, heating and ventilation systems, low emission corporate vehicle fleet, eco-driving training);
- continuous reduction of consumption water and sewage generation (e.g. faucet aerators, dual flush systems);
- effective waste segregation (in-house recycling of 50% of waste); contracts with specialist companies to handle the remaining waste);
- educating employees (e.g. reminding them on the need to turn off the lights, limit the number printouts, limit water consumption and waste generation, including plastic waste).

97% of the electricity used by the BOŚ S.A. and 100% of the electricity used by DM BOŚ comes from green sources.

We minimise waste generation

We reduce waste in our operations.

All waste produced in our Head Office and outlets is segregated at source into five categories. We recycle 50% of our waste, and the remaining 50% is handled by professional companies contracted by the Bank.

Figures

Year	Number of employees	Estimated volume of municipal waste [t].
2020	1,089	187.3
2021	1,158	199.17

The estimated waste generation rate per employee in 2020 was 172 kg. In 2021, the rate was maintained at the same level.

The Bank is also reducing paper consumption. Double-sided printing is used when possible and colour printing is limited. Paper consumption was reduced by 13.4% in 2021 compared to 2020.

We reduce water consumption

All of our outlets are equipped with devices to prevent excessive water consumption, such as dual-function flush systems and faucet aerators.

Figures

Year	Sewage generated [m ³]	Sewage sludge [t]
2020	13,652.62	4.52
2021	12,534.20	3.84

We have managed to reduce sewage volume and associated CO₂ emissions by 10% year on year.

Second life of equipment (best practice)

A significant portion of equipment and electronic devices (PCs, notebooks, phones) no longer used by the Bank's employees is given a second life by being offered for purchase at attractive prices to employees or third parties. Where possible, such equipment is donated to interested public utility institutions.

Resold equipment	Number of pieces
Cell phones	758
Notebooks	124
Computer sets	188 (16 pieces donated free of charge)

Decommissioned tangible assets may be donated to external entities - institutions of science, education, child-rearing, culture, healthcare and social welfare, charity, environmental protection, public order and safety, including organisations referred to in Article 3(2) and Art. 3(3) of the Act of April 24th 2003 on Public Benefit Initiatives and Volunteerism (Dz. U. 2018, item 450, consolidated text) for the purposes specified in Article 4 thereof. In 2021, the Bank donated 175 pieces of furniture equipment, 53 pieces were sold, and 857 pieces were disposed of. In 2020, the Bank donated 610 pieces of furniture equipment, 230 pieces were sold, and 580 pieces were disposed of.

Green initiatives of subsidiaries

DM BOŚ actively participates in green initiatives undertaken by the BOŚ Group. In 2021, BOŚ DM was strongly engaged in supporting the development of green investments market. It prepared two green bond offerings, in accordance with Green Bond Principles. In October, DM BOŚ co-organised one of the largest green bond offerings for non-financial sector issuers - series C green bonds of Famur SA, worth PLN 400 million. Acting as an issue coordinator, DM BOŚ also placed Series F green bonds of Columbus Energy SA, worth PLN 60 million.

The services offered by DM MOŚ include intermediation in trading in property rights arising from energy efficiency certificates. The service is used mainly by producers of energy from renewable sources (wind farms, small hydroelectric power plants, PV systems, etc.).

BOŚ Leasing – Eko Profit S.A. provides financing services in the form of operating and finance leases and leasing loans. It also provides financing to broadly understood green investment projects (solutions aimed at reducing energy consumption and RES projects). Moreover, BOŚ Leasing – Eko Profit S.A. helps the Group's clients to obtain green projects financing, combining funds extended by banks, National Fund for Environmental Protection and Water Management and EU development programmes.

MS Wind Sp. z o.o., a subsidiary of BOŚ Leasing – Eko Profit S.A., owns a wind farm (6 MW) in the municipality of Pełczyce.

'Green Office' Certificate

On its path to climate neutrality, BOŚ S.A. strives to make the Bank's operations increasingly environmentally friendly, while constantly monitoring the goals achieved. Green Office recertification process was conducted in 2021 for the BOŚ Headquarters.

A Green Office certificate is a confirmation that an organisation applies environmental management standards. The certificate is awarded by independent auditors of the international Foundation for Environmental Education, based in Copenhagen.

Being a certified Green Office means compliance with the environmental standard criteria, which can be divided into two groups: technical criteria and environmental education criteria.

The first group covers issues such as the possibility of waste segregation or management of water and electricity consumption. The second group includes criteria related to environmental education of employees, suppliers and clients as well as creating a friendly work environment. The fact that the Bank has yet again been granted the 'Green Office' certificate proves that we keep the top standards in our operations and provide our employees with various opportunities to develop their environmental knowledge.

Green training at Green Bank

BOŚ S.A. is truly concerned about the development of its employees. Therefore, it offers a wide range of webinars and workshops as well as training courses expanding their environmental knowledge.

'Introduction to Environmental Protection' training on basic environmental protection issues and Bank's initiatives in this area is one of the first trainings delivered to new employees at BOŚ S.A. as part of the induction training programme. Every new employee must take a compulsory e-learning course on environmental protection based on the original scenario developed at BOŚ S.A.. It presents key information on areas and technologies of environmental protection, and also on the Bank's green products offer and green project financing options. Moreover, corporate staff is provided with a dedicated training on green transition.

Bank employees have also access to the ECO Library featuring dozens of books and board games promoting environmental protection issues among employees and their families.

Every two weeks all Bank employees receive a Green Letter, supplementing the knowledge gained from trainings, providing information on the latest reports published on the market, interesting events or analytical studies.

The environmental education efforts of the Bank include a 'Cards from ECO Calendar' project presenting major environmental events, such as Clean Up the World (September 18-20), Car Free Day (September 22), World Animal Day (October 4) or International Day for Disaster Risk Reduction (October 13).

ESG Report

In 2021, BOŚ S.A. issued its ESG Report. It is a comprehensive publication on sustainable development, including economic and social issues. The report was prepared in accordance with the Global Reporting Initiative Standards (GRI Standards) for non-financial reporting (Core option). Realising the growing importance of ESG management and in response to investor expectations, the Bank has adopted an annual ESG reporting cycle.

The report outlines our efforts, ambitions and goals under each of the three pillars of the BOŚ ESG Strategy.

It reflects the Bank's approach to the use of renewable resources and presents actions taken with a view to minimising our impact on natural resources. The Bank is aware that its business activity affects its social environment - employees, clients, suppliers and the local community; hence the ESG Report describes the Bank's activities in areas such as employee management, workplace diversity and inclusiveness, and respect for labour and human rights.

Effective oversight is a must in every organisation; hence, the corporate governance section of the report identifies the procedures, standards and controls implemented to ensure effective management, streamlining of decision-making processes, compliance, and addressing of the needs of external stakeholders.

Environment and Economy

Director's Report on the operations of the BOŚ Group in 2021

The Bank supports its clients with expert knowledge and experience throughout their investment projects. BOŚ expert team consists of environmental engineers and experts experienced in advising on green transition projects.

In April 2021, the Bank formed a separate Environment and Climate business area with approximately 60 employees. Our clients have access to expert knowledge on environmental issues, support programmes, financing and commercialisation of green projects.

The Bank actively engages in the dialogue on environmental protection and sustainable finance issues, for example by taking part in the work of task forces set up by public administration bodies, such as the Ministry of Climate and Environment or Polish Bank Association (ZBP). Members of the Management Board and Bank experts participate in thematic conferences on environmental and climate issues, as well as in trade fairs.

Carbon footprint

The Bank has committed in its Climate Policy to calculate greenhouse gas emissions annually and to submit the calculations for independent verification. Targets and actions to reduce the Bank's carbon footprint by 2023 and 2030, respectively, are also set out in the ESG Strategy.

In 2021, for the second time in the Bank's history, carbon footprint was calculated (for 2019 and 2020 the emissions were estimates). The first estimate of greenhouse gas emissions in the Bank's operations was made for 2007. In December 2021, the verification of BOŚ's 2020 carbon footprint calculation was completed in collaboration with an independent third party.

The calculations were made in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. The 2020 calculations were based on the data (as complete as possible) for each of the three scopes.

The table below shows the reported and audited emission figures.

Scope	Emissions before verification [tCO ₂ eq].	Emissions after verification [tCO ₂ eq].
Scope 1	14.01	170.70
Scope 2	2,994.83	2,725.26
Scope 3	861.35	976.79
Total	3,870.19	3,872.74

The audit confirmed the emission figures calculated by an independent consultant. The difference was only 0.07%. In 2020, the carbon footprint per full-time employee was 3.56 Mg CO₂eq. Emission figures for 2021 will be published in a separate ESG Report.

Awards for environmental initiatives

The Bank's environmental initiatives have been noticed, appreciated and honoured with important and recognised distinctions and awards.

In April 2021, the Responsible Business Forum (FOB) noticed and awarded two new initiatives of BOŚ S.A.: Photovoltaic Installation Calculator and a series of environmental education trainings. The projects were included and discussed in a report 'Responsible Business in Poland 2020. Best Practices'. It is the largest and most influential review of its kind in Poland. The FOB report also featured several of the Bank's initiatives that have already proved successful over the years.

In June 2021, Bank Ochrony Środowiska was awarded the title of 'Sustainable Finance Leader' by the 'Sustainable Economy Award' judging panel. The award was presented during the official closing ceremony of the Executive Innovation Forum conference. In the jury's opinion, the bank is a perfect example of how financial institutions can contribute to sustainable development goals. Also appreciated was the Bank's continuously growing engagement in financing green capital projects, as well as commitment to issuing green bonds and raising awareness among retail and corporate clients about ecology, healthy lifestyle and concern for the environment.

Also in June 2021, BOŚ was honoured by *Polityka* weekly with the CSR Silver Leaf, awarded to companies that implement integrated management models encompassing quality assurance, environmental management and employee safety. *POLITYKA* weekly, in cooperation with Deloitte and Responsible Business Forum, invited companies operating in Poland to participate in another edition of the review of the solutions supporting sustainable development and social commitment. The review covered companies' activity in corporate governance, human rights, behaviour toward employees, environmental protection, customer care, business integrity and involvement with local communities. For the Sustainable Development Goals (SDG's), the focus was on projects addressing economic and social impacts of the pandemic and efforts to reduce adverse environmental and climate impacts.

In October 2021, the Bank received an international award 'Best Green Banking Solutions CEE 2021' for the best green banking solutions in the Central and Eastern Europe in 2021. CFI.co's judging panel appreciated, in particular, the Bank's commitment to financing environmental projects, which translates into considerable value of the Bank's green loan portfolio. An important role in granting the award was played by the Bank's ambitious plans expressed in the new development strategy. The award criteria are broad and include, among other things, compliance with the sustainable development principles, promoting financial products that deliver significant positive social impact, engaging in CSR initiatives or transparent communication with the market.

In November 2021, the Polish Chamber of Ecology awarded BOŚ for reducing the Bank's carbon footprint by nearly 50 percent.

The judging panel appreciated the Bank's long-standing commitment to promoting green attitudes, and in particular its efforts to reduce the carbon footprint. The Bank has reduced its carbon footprint in 2020 by nearly 40% year on year. For this achievement, the judging panel honoured the Bank with an award in the Air Protection and Climate Change Prevention category.

PRODUCTS

The mission 'Polish Green Bank - for people, businesses and the environment' is also reflected in the Bank's product range. For retail, SME and corporate clients BOŚ S.A. means modern banking products, including 'green' ones, top customer service, business ethics and care for the natural environment and sustainable development of Poland.

The Bank stands out for its broad range of products offering co-financing from BGK, National and Provincial Fund for Environmental Protection and Water Management, and other institutions. Experienced Bank employees, including environmental experts, can arrange financing for various projects that enhance the competitiveness of the Polish economy.

All products are reviewed for their compliance with the law, regulatory recommendations, trade practice and Bank's internal requirements. Key regulations forming the product's legal framework include:

- Banking Law Act, Consumer Credit Act, Mortgage Lending Act;
- Recommendations of the PFSA: S, T, U, Z,
- BOŚ S.A. Rules For Banking Product Development and Management;
- Documents laying down the rules for calculation of interest rates, commissions and charges for individual client groups.

Risk Departments and Legal Department give their opinions on each new Bank's product. The opinions include assessment of material risks and recommended method of risk management, fulfilment of reporting obligations, identification of possible conflicts of interest, compliance.

The Bank monitors customer satisfaction on an on-going basis. Satisfaction surveys cover product sales and after-sales services at the Bank's outlets. The Bank started to measure satisfaction of the clients using the Bank's call centre and officially launched the 'plain language' policy. Since the beginning of 2020, the plain language rules have been implemented on the new Bank's website and applied in complaint handling communications with the clients and in selected standard forms for retail clients. BOŚ S.A. has joined the Plain Language Standard Declaration for banks, drafted the Polish Bank Association, in an effort to change the banking language so that our clients understand all we write or say to them.

Several times a year, DM BOŚ conducts online surveys among its clients on products and services offered by DM BOŚ and the functionality of IT systems, with a view to ensuring top quality of products and comfort of investing. The results serve to improve the service quality and inspire the development of new functions in DM's transaction systems.

In the annual survey of the Association of Retail Investors, DM BOŚ has been ranked in the top three for several years and first in the last two years. DM BOŚ gets particularly high scores in the following categories: failure-free operation, online platform speed, and the educational offer.

Green loans for PV systems (best practice)

With a preferential loan offered by the Bank, households can easily (and without having to obtain a building permit):

- become prosumers (i.e. someone who both consumes and produces 'green energy');
- reduce their electricity bills.

A standard, a single 1kW PV installation produces 1000 kWh of electricity per year.

'GREEN HOME' certificate

A 'GREEN HOME' certificate is the first Polish multi-criteria certification programme for residential buildings, developed by PLGBC (Polish Green Building Council) in cooperation with established experts, integrated into mortgage lending offer. The certificate offers numerous benefits for the investor, developer, owner (client) and the environment.

Green mortgage loan is a unique product offered by the banks participating in the certification programme, promoting the idea of purchasing a house with the PLGBC Green Home certificate. Lower interest rate offered for green mortgage loans due to a lower default risk and a higher market value of certified houses compared to non-certified ones. With significantly lower electricity bills and repair costs, owners of PLGBC certified Green Homes can make extra savings and use them to repay the mortgage loan, which significantly reduces their risk of default. This, coupled with a higher market value of certified properties, enables the Bank to reduce the monthly interest rate on the green mortgage loans, compared to the interest rates on loans offered for standard houses. Benefits of certification:

- Certification criteria confirm that the negative environmental impact of the investment project has been minimised;
- It is an evidence of investors' and developers' conscious effort towards sustainable construction, adapting the applied solutions to best serve the clients'/buyers' health and comfort and to improve the quality of their life;
- It allows clients to obtain a mortgage loan on more attractive terms in cooperation with the Bank and ensures lower maintenance costs.

Sustainable financing – a response to the climate crisis

As one of the pillars of the system for financing environmental protection in Poland, the Bank is aware of its role and responsibility in this area. Being a Polish leader in green project financing, it offers modern and effective financial solutions that enable Polish institutions and businesses to effectively tackle the challenges posed by climate change through transition towards reducing the consumption of natural resources, improving energy efficiency, and increasing the use of renewable energy sources.

BOŚ's commitment is reflected in the development of green products offer and cooperation with key institutions forming the national environmental protection financing system (National and Provincial Funds for Environmental Protection and Water Management); cooperation with business (PGNiG Obrót Detaliczny); active participation in cross-sectoral projects (e.g. agreements on cooperation to support the development of offshore wind power generation, solar power generation, biogas and biomethane sectors, and an agreement for the development of hydrogen economy); collaboration with NGO sector (e.g. Climate Leadership programme run by UNEP Grid Warsaw).

The Bank has always focused on supporting the financing of green investment projects in Poland, and its green financial products are developed in line with the principles of sustainable development. The Bank engages in financing projects that support the EU taxonomy objectives: climate change mitigation and adaptation, transition to circular economy, pollution prevention and control, sustainable use and protection of water and marine resources, protection and restoration of biodiversity and ecosystems. The Bank is one of the first banks in Poland to finance renewable energy projects and it constantly improves the products intended for specific green projects.

Selected green products:

- The fast and easy Transparent Loan ('Przejrzysta Pożyczka') for replacement of heat sources and thermal upgrading of residential premises (supplementary and bridge financing under the Clean Air programme);
- Deep Breath Loan ('Pełnym oddechem') addressed to future and existing clients of PGNiG and intended to projects compatible with the governmental smog combating programme;
- Clean Air Loan (Czyste Powietrze) for replacement of heat sources and thermal upgrading, with loan repayment subsidies under governmental 'Clean Air' programme;

- Attractive loans offered in cooperation with Provincial Funds for Environmental Protection and Water Management (WFOŚiGW) in selected provinces - e.g. for replacement of heat sources, thermal upgrading and RES installations;
- Loans for thermal upgrading and renovation projects with a bonus from the Thermal Modernisation and Renovation Fund for partial repayment of the loan;
- Attractive loan offers for projects concerning 'Clean Air' Programme, photovoltaic installations, hydrology, or purchase of electric means of transport;
- Green mortgage loans;
- A special offer addressed to developers adhering to BREEAM or LEED or similar standards;
- Green Savings Loan ('EkoOszczędny'), enabling repayment with the use of savings generated by the project financed with the loan and with the cost-free Biznesmax loan guarantee;
- Investment credit facility to finance solar power generation plants with a capacity of up to 1 MW (inclusive), operating within the auction system;
- Payment cards featuring animals, intended to draw clients' attention to endangered species in Poland.
- It is the only financial product on the market authorised to use the Climate Leadership logo, focusing on preventing and mitigating the effects of droughts – Our Water ('Nasza Woda');
- A product available under EBI credit facility, with the Climate Action component included in the Juncker Plan.

Since 2021, the Bank has also participated in the My Electric Car Programme ('Mój Elektryk'), consisting in co-financing leasing of zero-emission vehicles from funds provided by the National Fund for Environmental Protection and Water Management.

Marketing communication

The Bank follows appropriate rules for drafting and publishing banking information and advertising materials, including clear indication of the nature of individual bank publications, in order to ensure proper functioning of the banking sector - including adequate protection of the interests of bank clients - and compliance with the principles of fair trading and best practices developed by financial market players, in particular the Financial Market Code of Best Practice (Kanon Dobrych Praktyk Rynku Finansowego). Every marketing material is subject to review, both during drafting and when used in marketing campaigns, in order to ensure compliance with the law, best practice and the PFSA's guidelines. The Bank has not identified any non-compliance in this respect.

Stock exchange education (best practice)

DM BOŚ, as one of the first brokerage offices in Poland, focused on consistent education as a key to informed investing on the capital market. DM BOŚ website offers a range of free training courses, e-learning workshops and tests introducing new clients into the world of investing and allowing experienced investors to broaden their knowledge. The materials have a clear and user-friendly format.

An ample source of knowledge and analysis on the current economic and geopolitical situation are the bossa.pl blogs run by experts and analysts of DM BOŚ. DM BOŚ has been frequently awarded for its contribution to economic education of Poles.

It engages in various educational projects, also in cooperation with the WSE Foundation, which are aimed at familiarising secondary school and university students with the capital market.

Procedures in brokerage activities

Due to the nature of its operations, DM BOŚ applies detailed internal marketing and sales procedures which ensure compliance with the law, industry standards and ethical values of the Group. Marketing materials are reviewed by the Compliance Supervision Department or Foreign Branches Supervision Team. DM BOŚ efforts to prevent dishonest sales practices include on-going employee education, monitoring of sales calls, and the remuneration system based, among other things, on quality criteria.

SOCIETY

Health, environment and volunteerism are the pillars of the BOŚ Foundation, which has managed and supported social initiatives of the Bank and DM BOŚ for more than 11 years. The Foundation's mission is to promote and implement the principles of sustainable development, seeking balance between continuous improvement of the standard of life of people and the impact this improvement has on the natural environment.

What makes the activities and initiatives supported by the Foundation stand out is:

- true faith in the sense of systematic and long-term action;
- focus on sustainable social change;
- the scope, form, and partners of programmes matching the specific needs of the local community;
- cooperation with individuals and institutions sharing the values embedded in the Bank's social responsibility;
- pro-active attitudes of the Bank's employees - both in diagnosing the needs of the local communities and engaging in voluntary work.

Pillars of social work of the Foundation

PILLAR	ASSUMPTIONS	EXAMPLES OF INITIATIVES (FOR DETAILED DESCRIPTION, SEE THE WEBSITE OF THE FOUNDATION)
Health	Raising awareness on the role of healthy diet and physical activity in retaining good health in the time of global changes	PlanujeGotuje.pl (Cooking with a plan) 'Zdrowo jem, więcej wiem' (Fit Diet, Fit Brain) project Aktywniepozdrawie.pl (Active means Healthy)
Environment	Raising social awareness about sustainable development and environmental issues; Promoting environmental care ideas, particularly among young people.	Postaw na słońce (Bet on the Sun) Brudno Tu (It's Dirty Here) Zielona Ławeczka (Green Bench) Tradycyjny sad (Traditional Orchard) Collaboration with PIRE Cooperation with the Copernicus Science Centre Cooperation with the Science Festival
Voluntary work	Active involvement in voluntary work as a component of the corporate social responsibility policy and one of the key components of the organisational culture, strengthening relations among employees.	Micro-subsidies Pomagam cały rok (Helping All Year Round)

Social reach (selected data)

- More than 1,300 students in 260 student teams from all around Poland participated in the 7th edition of 'Postaw na Słońce' (Bet on the Sun) project. They prepared 244 designs of photo-voltaic micro installations for single family houses and made 60 films promoting RES.
- 340 people from neighbourhood teams enrolled in the 7th edition of the 'Zielona Ławeczka' (Green Bench) project (14 grants were awarded).

- More than 2,600 submissions (from over 50,000 pupils and teachers) were received in the 11th edition of the health promoting programme for primary schools (grades 1 to 3) 'Zdrowo jem, więcej wiem' (Fit Diet, Fit Brain).
- More than 1,600 pupils and teachers set up nearly 150 mini orchards and planted nearly 770 fruit trees of old varieties.

Sustainable development initiatives

In 2021, the BOŚ Foundation became a partner (as a donor) of the The eMobi Road To COP26 initiative of the Polish Chamber of Electromobility Development (PIRE). The purpose of the initiative was to highlight the role of electromobility and its contribution to reducing the carbon footprint of transport industry. Two electric cars travelled 12,000 km visiting the cities that hosted the COP (Warsaw - Katowice - Glasgow). The main objective of the trip was to deliver a declaration to the representatives of the UNFCCC, proposing the establishment of the World Electromobility Day. The Declaration was signed by more than 300 entities, institutions, organisations and individuals worldwide. An additional positive note during the trip was a visit in the Vatican and a meeting with the Pope Francis. In the presence of the Minister of Climate and Environment, Michał Kurtyka, the Pope received a silver medal commemorating the 30th anniversary of BOŚ.

At the end of 2021, the Foundation engaged in cooperation with the Copernicus Science Centre (CNK) in Warsaw - the Polish biggest institution promoting science among children and teenagers. The purpose of the cooperation is to support the CNK's most extensive and oldest educational programme - The Young Explorer's Club, where children can conduct scientific experiments and discover the laws of physics and chemistry under the supervision of tutors, gaining knowledge and developing competencies of the future. Nearly 1,000 clubs has been established as part of the programme, in Poland and abroad. The Foundation financed the purchase of 36 'Air Quality Unit' teaching kits, which are currently being distributed by CNK among the most active Young Explorer's Clubs. The kits containing various pieces of equipment, reagents, and even a do-it-yourself minicomputer, will help young people learn about analysing and assessing air quality by performing basic measurements and experiments.

In 2021, the Foundation has partnered with the University of Warsaw as a donor in the 25th anniversary edition of the Science Festival. In addition, the Foundation acted as the patron of a debate opening the Festival, entitled The Economics of Going Green, or Can We Profit from Helping the Planet?, attended by the Bank's representatives. The Science Festival in Warsaw is a joint initiative of the largest Warsaw universities, with organisational support from the University of Warsaw, with a mission to promote and encourage interest in science. Meetings, lectures and debates are addressed to diverse audiences, regardless of the educational background or age. Despite the pandemic, in the absence of major restrictions, the 2021 edition of the Festival was extremely popular.

BOŚ Group employee engagement

Micro-subsidies

BOŚ Group employees can apply for funds under the Micro-subsidies project to finance initiatives addressed to a specific local community and are carried out by employees in cooperation with selected non-governmental organizations or public institutions.

In the first half of the year, due to the pandemic, applications were processed on a rolling basis. A grant was awarded under this procedure for the project 'Świcimy Słońcem, świeć i ty' (We take light from the Sun, so can you) seeking to educate and encourage local community to use renewable energy sources. Another eight applications received financing under the programme as a result of the traditional call for proposals announced in the autumn. They will be implemented in the spring of 2022.

Pomagam cały rok (Helping All Year Round) (individual charity initiatives)

As stated in the campaign's motto, the BOŚ Group employees are eager to help all year round. Our volunteering initiatives are open to new employees (who, as part of the induction programme, receive a presentation on why it's worth to engage in charity work).

In 2021, our employees' engagement translated into:

- three scholarships for talented children from low-income families for the school year 2021/2022
- financial support for six Bank's employees who found themselves in a difficult life situation.

A day off – for those who care (best practice)

An employee engaging in voluntary or environmental work is entitled to one additional day off per calendar year. This is yet another incentive to encourage environmental efforts and helping others.

VII. REPRESENTATION ON THE RELIABILITY OF FINANCIAL STATEMENTS

The Management Board of Bank Ochrony Środowiska S.A. represents that, to the best of its knowledge, the Full-Year Consolidated Financial Statements of the Bank Ochrony Środowiska Group for the year ended December 31st 2021 and the Full-Year Financial Statements of Bank Ochrony Środowiska S.A. for the year ended December 31st 2021 have been prepared in compliance with the applicable accounting policies and give a true, fair and clear view of the assets, financial condition and financial performance of the Bank Ochrony Środowiska Group and Bank Ochrony Środowiska S.A., and that the Directors' Report on the operations of the Bank Ochrony Środowiska Group, prepared together with the Directors' Report on the operations of Bank Ochrony Środowiska S.A. in 2021, gives a true view of the development, achievements and condition of the Group and the Bank, and includes a description of key risks and threats.

Signatures of Members of the Management Board

Date	Name and surname	Position held	Signature
March 30th 2022	Wojciech Hann	President of the Management Board	Signed with qualified e-signature
March 30th 2022	Arkadiusz Garbarczyk	Vice President of the Management Board – First Deputy of President of the Management Board	Signed with qualified e-signature
March 30th 2022	Robert Kasprzak	Vice President of the Management Board	Signed with qualified e-signature
March 30th 2022	Marzena Koczut	Vice President of the Management Board	Signed with qualified e-signature
March 30th 2022	Jerzy Zań	Vice President of the Management Board	Signed with qualified e-signature