



# **FULL-YEAR FINANCIAL STATEMENTS OF BANK OCHRONY ŚRODOWISKA S.A.**

FOR THE YEAR ENDED DECEMBER 31ST 2021

Warsaw, March 2022



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## Full-year profit or loss of the Bank

Continuing operations	Note	for the year ended	
		December 31st 2021	December 31st 2020
Interest and similar income, including:		424,897	516,280
<i>financial assets measured at amortised cost</i>		374,899	445,594
<i>assets measured at fair value through other comprehensive income</i>		45,971	67,698
<i>financial assets measured at fair value through profit or loss</i>		4,027	2,988
Interest expense and similar charges, including:		- 58,934	- 148,985
<i>financial liabilities measured at amortised cost</i>		- 52,501	- 141,285
<i>financial liabilities measured at fair value through profit or loss</i>		- 6,433	- 7,700
<b>Net interest income</b>	9	<b>365,963</b>	<b>367,295</b>
Fee and commission income		83,703	72,441
Fee and commission expense		- 10,794	- 9,745
<b>Net fee and commission income</b>	10	<b>72,909</b>	<b>62,696</b>
Dividend income	11	6,527	6,205
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	12	20,222	18,601
Gain (loss) on investment securities	13	197	4,239
Gain (loss) on hedge accounting	14	764	- 2,038
Gain (loss) on foreign exchange transactions	15	25,257	25,071
Other income	16	16,968	9,469
Other expenses	17	- 30,190	- 15,566
Effect of legal risk of mortgage loans denominated in foreign currencies	18/37	- 20,783	- 353,010
Net impairment losses	19	- 105,488	- 165,714
Administrative expenses	20	- 300,022	- 285,778
Share of profit (loss) of equity-accounted entities		21,567	29,471
<b>Profit (loss) before tax</b>		<b>73,891</b>	<b>- 299,059</b>
Income tax expense	21	- 25,177	- 11,239
<b>Net profit (loss)</b>		<b>48,714</b>	<b>- 310,298</b>
Earnings (loss) per share attributable to owners of parent during period (PLN)	22		
<i>basic</i>		0.52	-3.34
<i>diluted</i>		0.52	-3.34

There were no discontinued operations in 2021 and 2020.

The notes presented on the following pages are an integral part of these financial statements.

## Full-year statement of comprehensive income

Continuing operations	for the year ended	
	December 31st 2021	December 31st 2020
<b>Net profit (loss)</b>	<b>48,714</b>	<b>- 310,298</b>
<b>Items that may be reclassified to profit or loss:</b>	<b>- 94,581</b>	<b>20,403</b>
Fair value of financial assets measured at fair value through other comprehensive income, gross	- 116,767	25,189
Deferred tax	22,186	- 4,786
<b>Items that will not be reclassified to profit or loss:</b>	<b>- 250</b>	<b>- 229</b>
Fair value of equity instruments carried at fair value through other comprehensive income, gross	1	- 40
Deferred tax	-	8
Remeasurement of employee benefit obligations	- 310	- 243
Deferred tax	59	46
<b>Total comprehensive income</b>	<b>- 46,117</b>	<b>- 290,124</b>

The notes presented on the following pages are an integral part of these financial statements.



## Full-year statement of financial position of the Bank

Assets	Note	December 31st 2021	December 31st 2020
Cash and balances at central bank	23	361,564	266,532
Amounts due from banks	24	390,452	142,015
Financial assets held for trading, including:	25	119,310	79,827
<i>debt securities</i>		4,200	-
<i>derivative instruments</i>		115,110	79,827
Derivative hedging instruments		9,121	-
Investment securities:	26	7,108,931	7,371,414
<i>equity securities measured at fair value through other comprehensive income</i>		85,483	85,480
<i>debt securities measured at fair value through other comprehensive income</i>		5,311,853	5,597,061
<i>debt securities measured at amortised cost</i>		1,582,366	1,535,239
<i>debt securities measured at fair value through profit or loss</i>		129,229	153,634
Amounts due from clients, including:	27	11,872,238	11,891,853
<i>measured at amortised cost</i>		11,858,127	11,866,339
<i>measured at fair value through profit or loss</i>		14,111	25,514
Investments in subsidiaries	29	199,371	193,803
Intangible assets	30	99,793	99,484
Property, plant and equipment	31	39,322	38,429
Right of use – leases	32	72,671	63,482
Tax assets:		144,947	124,127
<i>current</i>		-	8,433
<i>deferred</i>	38	144,947	115,694
Other assets	33	32,248	27,896
<b>Total assets</b>		<b>20,449,968</b>	<b>20,298,862</b>

Liabilities	Note	December 31st 2021	December 31st 2020
Amounts due to central bank and other banks	34	420,389	732,743
Derivative financial instruments held for trading	25	93,879	97,410
Derivative hedging instruments	45	-	24,497
Amounts due to clients	35	17,012,146	16,553,777
Subordinated liabilities	36	369,107	368,996
Provisions	37	444,594	415,070
Tax liabilities:		7,433	-
<i>current</i>		7,433	-
Lease liabilities	39	75,314	66,733
Other liabilities	40	162,817	129,230
<b>Total liabilities</b>		<b>18,585,679</b>	<b>18,388,456</b>

Equity	Note	December 31st 2021	December 31st 2020
<b>EQUITY ATTRIBUTABLE TO OWNERS OF PARENT</b>			
Common equity:	42	1,460,364	1,460,364
<i>Share capital</i>		929,477	929,477
<i>Treasury shares</i>		- 1,294	- 1,294
<i>Share premium</i>		532,181	532,181
Revaluation reserve	43	- 26,962	67,869
Retained earnings	44	430,887	382,173
<b>Total equity</b>		<b>1,864,289</b>	<b>1,910,406</b>
<b>Total equity and liabilities</b>		<b>20,449,968</b>	<b>20,298,862</b>

The notes presented on the following pages are an integral part of these financial statements.

## Full-year statement of changes in equity of the Bank

Item	Common equity			Revaluation reserve	Retained earnings			Total equity
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	General risk fund	Undistributed profit (loss)	
<b>As at January 1st 2021</b>	<b>929,477</b>	<b>- 1,294</b>	<b>532,181</b>	<b>67,869</b>	<b>726,193</b>	<b>48,302</b>	<b>- 392,322</b>	<b>1,910,406</b>
Net profit (loss)	-	-	-	-	-	-	48,714	48,714
Other comprehensive income	-	-	-	- 94,831	-	-	-	- 94,831
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>- 94,831</b>	<b>-</b>	<b>-</b>	<b>48,714</b>	<b>- 46,117</b>
<b>Profit distribution, including:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>- 392,322</b>	<b>-</b>	<b>392,322</b>	<b>-</b>
Offset of losses from prior years	-	-	-	-	- 389,286	-	389,286	-
Offset of 2018 issue costs against capital reserve	-	-	-	-	- 3,036	-	3,036	-
<b>As at December 31st 2021</b>	<b>929,477</b>	<b>- 1,294</b>	<b>532,181</b>	<b>- 26,962</b>	<b>333,871</b>	<b>48,302</b>	<b>48,714</b>	<b>1,864,289</b>
<b>As at January 1st 2020, adjusted</b>	<b>929,477</b>	<b>- 1,294</b>	<b>532,181</b>	<b>47,695</b>	<b>645,531</b>	<b>48,302</b>	<b>- 1,362</b>	<b>2,200,530</b>
Net profit (loss)	-	-	-	-	-	-	- 310,298	- 310,298
Other comprehensive income	-	-	-	20,174	-	-	-	20,174
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,174</b>	<b>-</b>	<b>-</b>	<b>- 310,298</b>	<b>- 290,124</b>
<b>Profit distribution, including:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,662</b>	<b>-</b>	<b>- 80,662</b>	<b>-</b>
Transfer of net profit to reserves	-	-	-	-	80,662	-	- 80,662	-
<b>As at December 31st 2020</b>	<b>929,477</b>	<b>- 1,294</b>	<b>532,181</b>	<b>67,869</b>	<b>726,193</b>	<b>48,302</b>	<b>- 392,322</b>	<b>1,910,406</b>

The notes presented on the following pages are an integral part of these financial statements.

## Full-year statement of cash flows of the Bank

Indirect method	for the year ended	
	December 31st 2021	December 31st 2020
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
<b>Profit (loss) before tax</b>	<b>73,891</b>	<b>-299,059</b>
<b>Total adjustments:</b>	<b>1,094,828</b>	<b>1,260,547</b>
Share in (profit) loss of equity-accounted subordinated entities	-21,567	-29,471
Amortisation/depreciation	45,463	42,769
Interest income on investing activities	-49,988	-54,758
Gain (loss) on investing activities	-10	-8
Interest income on financing activities	16,097	16,248
Dividends received:	-6,525	-6,205
<i>on investment securities</i>	6,525	6,205
Change in:		
<i>amounts due from banks</i>	61,753	-23,643
<i>securities held for trading</i>	-4,200	43,085
<i>assets and liabilities from measurement of derivative and hedging financial instruments</i>	-72,432	33,898
<i>investment securities</i>	911,906	-1,026,215
<i>amounts due from clients</i>	19,615	137,167
<i>other assets and income tax</i>	4,127	-12,184
<i>amounts due to central bank and other banks</i>	-312,354	137,076
<i>amounts due to clients</i>	458,369	1,667,057
<i>provisions</i>	29,214	356,955
<i>other liabilities and income tax</i>	33,587	17,702
Income tax paid	-24,752	-45,131
<b>Net cash flows from (used in) operating activities</b>	<b>1,168,719</b>	<b>961,488</b>

<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
<b>Inflows</b>	<b>89,468</b>	<b>60,556</b>
Cash receipts from sale of property, plant, and equipment	12	10
Interest income on securities measured at amortised cost	45,169	57,489
Cash receipts from redemption of securities measured at amortised cost	28,287	-
Dividends received	16,000	3,057
<b>Outflows</b>	<b>-104,244</b>	<b>-192,361</b>
Payments for acquisition of securities measured at amortised cost	-70,595	-160,586
Payments for acquisition of intangible assets	-24,401	-15,338
Payments for acquisition of property, plant and equipment	-9,248	-16,437
<b>Net cash flows from (used in) investing activities</b>	<b>-14,776</b>	<b>-131,805</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
<b>Inflows</b>	<b>-</b>	<b>-</b>
<b>Outflows</b>	<b>- 29,659</b>	<b>-31,442</b>
Interest paid on bonds issued by the Bank, including:	-12,036	-14,440
<i>subordinated bonds</i>	-12,036	-14,440
Lease payments	- 17,623	-17,002
<b>Net cash flows from (used in) financing activities</b>	<b>-29,659</b>	<b>-31,442</b>
<b>TOTAL NET CASH FLOWS</b>	<b>1,124,284</b>	<b>798,241</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>2,475,299</b>	<b>1,677,058</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>3,599,583</b>	<b>2,475,299</b>
Restricted cash and cash equivalents	295,202	31,408

The notes presented on the following pages are an integral part of these financial statements.

## Notes to the full-year financial statements

### 1. General information on Bank Ochrony Środowiska S.A.

#### 1.1. Bank Ochrony Środowiska S.A.

Bank Ochrony Środowiska S.A. (the "Bank", "BOŚ S.A.", the "Company"), with its registered office at ul. Żelazna 32 in Warsaw, was established by Decision No. 42 of the Governor of the National Bank of Poland September 15th 1990, and a notarial deed of incorporation of September 28th 1990.

The Bank is entered in the National Court Register of the District Court for the Capital City of Warsaw, 13th Commercial Division, under No. KRS 0000015525, and has Industry Identification Number (REGON) 006239498.

According to the Polish Classification of Business Activities (PKD), the Bank's activities are classified as PKD 6419Z.

The Bank was established for an indefinite period.

The Bank's primary objective is to effectively manage the shareholders' equity and funds entrusted by its clients, ensuring the profitability of its business and the security of the funds entrusted.

The Bank's business consists in banking activities, including accumulating funds, granting credits, effecting cash settlements, performing other banking services as well as providing financial consulting and advisory services.

The Bank's mission is: We support green transition in an innovative and effective manner.

The Bank pursues its mission mainly by:

- providing banking services to retail and institutional clients, in particular those implementing environmentally-friendly projects or operating in the environmental protection and water management sectors, and to people who value eco-friendly lifestyles,
- participating in distribution of funds for environmental protection projects and sustainable development in Poland.

Since January 24th 1997 the Bank shares have been traded on the Warsaw Stock Exchange and listed in the finance/banking segment of the market.

These full-year financial statements of BOŚ S.A. were authorised by the Management Board of the Bank for issue on the Warsaw Stock Exchange on March 30th 2022.

#### 1.2. Composition of the Management Board and Supervisory Board of the Bank

##### Management Board

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

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



As at December 31st 2020, the composition of the Management Board of the Bank 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.

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

1. on February 10th 2021, the Supervisory Board appointed Marzena Koczut as Vice President of the Management Board,
2. on February 15th 2021, the Supervisory Board appointed Robert Kasprzak as Vice President of the Management Board,
3. 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.

As at the date of this Report, the composition of the Management Board has not changed.

As at the date of these financial statements, 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.

## Supervisory Board

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

- Emil Ślęzak, Chairman of the Supervisory Board
- Ireneusz Purgacz, Deputy Chairman of the Supervisory Board
- Paweł Sałek, Secretary of the Supervisory Board

Members of the Supervisory Board

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

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
- Paweł Sałek – Secretary of the Supervisory Board

Members of the Supervisory Board

- Leszek Banaszak
- Robert Czarnecki
- Janina Goss
- Marcin Jastrzębski

- Marzena Kocut (from December 21st 2020 delegated to temporarily perform the duties of Member of the Management Board member – for a period not longer than until March 21st 2021)
- Emil Ślęzak
- Piotr Wróbel.

In 2021, the composition of the Supervisory Board changed as follows:

1. On February 10th 2021, Marzena Kocut, following her appointment as Vice President of the Management Board, tendered her resignation as member of the Supervisory Board.
2. 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.
3. At the meeting held on July 13th 2021, the Supervisory Board elected Emil Ślęzak as Chairman of the Supervisory Board.

Until the date of preparation of these financial statements, the composition of the Supervisory Board has not changed.

## 2. Identification of the consolidated financial statements

The Bank Ochrony Środowiska S.A. Group also prepared consolidated financial statements for the year ended December 31st 2021, which on March 30th 2022 were authorised by the Management Board for issue on March 31st 2022.

## 3. Compromise and Settlement Programme for residential mortgage-backed loans tied to foreign currency exchange rates

In January 2021, a group of banks, including Bank Ochrony Środowiska S.A., acting on the basis of assumptions of the proposal of the Chairman of the Polish Financial Supervision Authority (announced in December 2020), commenced cross-sectoral consultations to establish a catalogue of best practices to seek voluntary compromise and settlement with clients.

Based on these consultations and a proposal from the Chairman of the PFSA, the Bank prepared a Compromise and Settlement Programme (the “Programme”) for clients who repay residential loans tied to foreign currency exchange rates. The Programme enables clients to avoid foreign exchange risk by converting the currency of the loan into PLN and repaying the remaining loan balance (i.e., after its reduction to the level resulting from the actual payments made to the Bank) in accordance with a repayment schedule defined in PLN as if the loan had been a PLN loan since its origination, with interest accruing at WIBOR plus an appropriate margin.

On December 8th 2021, the Extraordinary General Meeting of the Bank approved the 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.

The Programme is available to clients with outstanding loans taken out for the clients' own residential purposes, as well as clients who instituted court proceedings against the Bank for invalidation of a loan agreement if such proceedings have not yet concluded with a final judgment. For details of the Programme, see the Bank's website at <https://www.bosbank.pl/przewalutowanie-kredytu>.

In estimating the provision for legal risk related to foreign currency mortgage loans as of December 31st 2021 and December 31st 2020, the Management Board factored in a compromise and settlement scenario due to the high expected willingness of clients to reach an agreement with the Bank. Thus, the operational launch of the Programme in January 2022 did not require any significant adjustments to the amount of the provision. As at March 30th 2022, 433 requests for settlement were filed under the Programme.

## 4. Climate change

The mission of BOŚ, set out in the Bank's Articles of Association, is to provide innovative and effective support for green transition by engaging in the financing of pro-environmental projects aimed at generating not only business results but also environmental effects. The Bank undertakes to co-finance various projects that improve the environment, in particular environmental projects supported by the policies of the state authorities and the European Union, including measures to develop a low-carbon economy. The Bank's business model is based on the pursuit of maximising green assets through such environmental objectives climate change mitigation, climate change adaptation, sustainable use and conservation of water and marine resources, transition to a closed loop economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. In financing pro-environmental undertakings, the Bank cooperates with public and state entities and institutions whose mission is to support such undertakings, including the National Fund for Environmental Protection and Water Management, the Provincial Funds for Environmental Protection and Water Management, Bank Gospodarstwa Krajowego, and European banks that finance sustainable development.

The Bank has extensive structures and specialised expert resources committed to environmental protection.

The Bank has implemented the process of identifying ESG risks as a new factor to be assessed in the credit risk assessment process. Credit risk assessment involves assessment as to whether the client has ESG risks. Any such risks identified are measured. Depending on the degree of ESG risk faced by a client seeking financing, financing may be made conditional on the client taking actions to mitigate those risks, or financing may ultimately be denied on the basis of an unacceptable level of ESG risk – irrespective of the client's creditworthiness or the degree of collateral offered to support the debt.

## 5. Statement of accounting policies

### 5.1. Basis of preparation and statement of compliance

The full-year financial statements of the Bank include:

- statement of profit or loss for the 12 months ended December 31st 2021 and comparative data for the 12 months ended December 31st 2020,
- statement of comprehensive income for the 12 months ended December 31st 2021 and comparative data for the 12 months ended December 31st 2020,
- statement of financial position as at December 31st 2021 and comparative data as at December 31st 2020,
- statement of changes in equity for the 12 months ended December 31st 2021 and comparative data for the 12 months ended December 31st 2020,
- statement of cash flows for the 12 months ended December 31st 2021 and comparative figures for the 12 months ended December 31st 2020,
- notes to the financial statements.

These full-year financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), effective as at the reporting date, i.e., December 31st 2021, using the same accounting policies for each period, and on a historical cost basis, except for the following items measured at fair value:

Recognition of changes in fair value through:	
Financial instruments held for trading	profit or loss
Fair value hedging derivatives	profit or loss
Amounts due from clients whose cash flows fail to meet the SPPI (solely payment of principal and interest) test	profit or loss
Investment debt securities held within a business model whose objective is achieved by collecting contractual cash flows or selling financial assets	other comprehensive income
Investment equity securities	other comprehensive income

IFRSs comprise the standards and interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

These financial statements of the Bank follow the same accounting policies as those used in the preparation of the full-year financial statements for the year ended December 31st 2020 except for the principles of presentation of result of legal risk of foreign currency mortgage loans. This change is described in Note 5.2.

These full-year financial statements have been prepared in the Polish złoty (PLN), rounded to PLN thousand (PLN' 000).

### 5.2. Comparability with prior period data

The presentation of income and expenses related to the legal risk of foreign currency mortgage loans has been changed in these financial statements. In the full-year financial statements for 2020, the legal risk provision was recognised in the line item 'Legal risk costs of mortgage loans denominated in foreign currencies' in the statement of profit or loss, and income from reversal of the provision was recognised in the line item 'Other income'. In the full-year financial statements for 2021, income and expenses arising from the legal risk are presented in the line item 'Result of legal risk of mortgage loans denominated in foreign currencies'. Following the presentation change, the Bank restated the comparative data for the 12 months ended December 31st 2020 disclosed in these financial statements.

## Restated full-year statement of profit or loss

Continuing operations	Data in the issued financial statements for the 12 months ended December 31st 2020	Adjustment due to change in presentation	Adjusted data in these financial statements for the 12 months ended December 31st 2020
Interest income and similar income, including:	516,280	-	516,280
<i>financial assets measured at amortised cost</i>	445,594	-	445,594
<i>assets measured at fair value through other comprehensive income</i>	67,698	-	67,698
<i>financial assets mandatorily measured at fair value through profit or loss</i>	2,988	-	2,988
Interest expense and similar charges, including:	- 148,985	-	- 148,985
<i>financial liabilities measured at amortised cost</i>	- 141,285	-	- 141,285
<i>financial liabilities mandatorily measured at fair value through profit or loss</i>	- 7,700	-	- 7,700
<b>Net interest income</b>	<b>367,295</b>	<b>-</b>	<b>367,295</b>
Fee and commission income	72,441	-	72,441
Fee and commission expense	- 9,745	-	- 9,745
<b>Net fee and commission income</b>	<b>62,696</b>	<b>-</b>	<b>62,696</b>
Dividend income	6,205	-	6,205
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	18,601	-	18,601
Gain (loss) on investment securities	4,239	-	4,239
Gain (loss) on hedge accounting	- 2,038	-	- 2,038
Gain (loss) on foreign exchange transactions	25,071	-	25,071
Other income	9,480	- 11	9,469
Other expenses	- 15,566	-	- 15,566
Effect of legal risk of mortgage loans denominated in foreign currencies	- 353,021	11	- 353,010
Net impairment losses	- 165,714	-	- 165,714
Administrative expenses	- 285,778	-	- 285,778
Share of profit (loss) of equity-accounted subsidiaries	29,471	-	29,471
<b>Profit before tax</b>	<b>- 299,059</b>	<b>-</b>	<b>- 299,059</b>
Income tax expense	- 11,239	-	- 11,239
<b>Net profit</b>	<b>- 310,298</b>	<b>-</b>	<b>- 310,298</b>

### 5.3. Standards, interpretations and amendments to standards first applied in 2021

IFRS	Amendment	Effective as of	Effect on the Bank
Amendment to IFRS 16: <i>Covid-19-Related Rent Concessions</i>  <i>beyond 30 June 2021</i>	The amendments extend the scope of amendments to IFRS 16: <i>Covid-19-Related Rent Concessions</i> (issued on May 28th 2020) which permitted lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic and meeting specific conditions are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment to IFRS 16 extends the availability of the partial expedient by 12 months, from June 30th 2021 to June 30th 2022.	April 1st 2021	The amendment had no material effect on the financial statements.
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 15 – IBOR reform – Phase 2	The regulations published as part of Phase 2 of the IBOR reform relate to:  – changes in contractual cash flows – addition to IFRS 9 of a solution that will enable recognition of modifications to contractual cash flows due to the IBOR reform by updating the effective interest rate of the contract to reflect the transition to an alternative benchmark (there will be no obligation to cease recognition or adjust the carrying amount of financial instruments); a similar solution applies to IFRS 16 with respect to recognition of lease modifications by lessees;  – hedge accounting – there will be no need to discontinue hedge accounting simply because of the changes required by the reform if the hedge meets the other hedge accounting criteria;  – disclosures – entities will be required to disclose information about the new risks arising from the reform and how they are managing the transition to alternative benchmarks.	January 1st 2021	The amendment had no material effect on the financial statements.
Amendments to IFRS 4 <i>Insurance Contracts – Deferral of IFRS 19</i>	The amendments provide for two optional solutions to reduce the impact of the different effective dates of IFRS 9 and IFRS 17.	January 1st 2021	The amendments had no material effect on the financial statements.



## 5.4. Going concern

As a result of accounting losses incurred in 2015, the Bank implemented a Recovery Programme pursuant to Article 142(1) of the Banking Law in the wording effective until October 8th 2016, in accordance with Article 381(4) of the Act of June 10th 2016 on the Bank Guarantee Fund, deposit guarantee scheme and forced restructuring. In 2021, the Bank continued the Recovery Programme.

On July 17th 2020, the Bank received a decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated *ex officio* by the PFSA on May 12th 2020, whereby the Bank was ordered to prepare a group recovery plan for Bank Ochrony Środowiska S.A., pursuant to Article 141n.1 of the Banking Law Act of August 29th 1997. On July 20th 2020, the Bank received the second decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated *ex officio* by the PFSA on May 12th 2020 to limit the scope of the group recovery plan to entities of the BOŚ Group (i.e., Bank Ochrony Środowiska S.A., Dom Maklerski S.A., BOŚ Leasing EKO-Profit S.A. and MS Wind sp. z o.o.).

The Bank prepared the Group Recovery Plan and submitted it to the PFSA in October 2020. In a letter dated January 21st 2021, in connection with the administrative proceedings to approve the Group Recovery Plan, the Polish Financial Supervision Authority instructed the Bank to supplement and amend the Group Recovery Plan, with the audited financial data as at December 31st 2020 to be used as the point of reference. In accordance with the PFSA's request, BOŚ corrected the Group Recovery Plan and submitted it to the authority. On December 17th 2021, the PFSA approved the Group Recovery Plan.

The approval of the plan by the PFSA marks the discharge of the reorganisation obligations under the Recovery Programme.

In 2021, the Bank prepared a Framework Strategy for BOŚ S.A. (the "Strategy"), whose assumptions, directions and objectives are consistent with those of the Group Recovery Plan. On June 22nd 2021, the Supervisory Board of the Bank approved the Strategy.

On December 31st 2021, the Bank decided to launch the Group Recovery Plan approved by the PFSA. The corrective actions taken under the Group Recovery Plan are designed to achieve sustainable profitability of the Bank.

During the COVID-19 pandemic, the Bank maintained its full operational capacity and the safety ratios significantly above the minimum regulatory requirements, with the pandemic having no significant effect on the Bank's liquidity and capital adequacy.

The Bank maintains its capital adequacy ratios above the levels recommended by the Polish Financial Supervision Authority (see Note 8.3 for details). The Bank's financial liquidity is adequate and exceeds the regulatory requirements (for details, see Note 8.2.1).

Taking into consideration the factors described above, as at the date of authorisation of these financial statements for issue, there are no circumstances that would indicate a threat to the Bank's ability to continue as a going concern for at least 12 months after the reporting date as a result of deliberate or compulsory discontinuation or limitation of its current operations.

## 5.5. Segment reporting

An operating segment is a component of the Bank:

1. that engages in business activities from which it may earn revenues and incur expenses,
2. whose operating results are regularly reviewed by the entity's chief operating decision maker,
3. for which discrete financial information is available.

Segment reporting is prepared on the same basis as internal reporting.

In accordance with IFRS 8, the Bank identifies the following operating segments:

1. institutional clients,
2. retail clients,
3. treasury and investments,
4. other (not allocated to the segments).

The Bank's activities are not geographically diversified. For a detailed description of the segment reporting policies, see Note 51.

## 5.6. Measurement of items denominated in foreign currencies

### Functional currency

Items of the financial statements are measured in the functional currency, which is the currency of the primary economic environment in which the Bank operates.

The functional currency of the Bank is the Polish zloty.

### Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate effective on the transaction date, and the result of such translation is recognised in profit or loss.

On-balance sheet assets and liabilities and off-balance-sheet liabilities in foreign currencies are translated at the exchange rate effective at the end of the reporting period.

Non-monetary assets and liabilities measured at fair value are translated at the exchange rate effective as at the measurement date.

Non-monetary assets and liabilities measured at cost are translated at the exchange rate effective on the date these items arise.

## 5.7. Interest income and expense

All interest income on financial instruments measured at amortised cost using the effective interest rate method and interest income on interest-bearing financial assets measured at fair value through other comprehensive income or through profit or loss is recognised in the statement of profit or loss.

The effective interest rate method is a method of calculating the amortised initial amount of financial assets or liabilities and of allocating interest income or interest expense over the relevant period. An effective interest rate is the rate at which the discounted future payments or cash inflows are equal to the current net carrying amount of the asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows taking into account all contractual terms of a given financial instrument (e.g. early repayment options that are not separated from the host contract), without taking into account possible future losses on outstanding facilities. This calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income on the net carrying amount of those assets is recognised at the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

## 5.8. Fee and commission income and expense

Fee and commission income and expenses on amounts due from clients are recognised as interest income using the effective interest rate method. Fees and commissions for the grant of a credit product, collected prior to its disbursement, are deferred until funds are disbursed to the client. Fees for the provision of syndicated loans are recognised as revenue once the syndicate is formed, if the Bank has retained no part of the credit risk for itself or has retained a part at the same effective interest rate as other members of the syndicate.

Other fee and commission income is recognised in principle when the promised goods or services are transferred to the client. In the case of fees and commissions for credit limits, income is recognised at the end of the availability period.

Fee and commission expenses are recognised on an accrual basis, i.e., when the services are received from the service provider, with costs of mandatory legal fees being recognised at the moment the obligation to pay arises.

## 5.9. Recognition of banc assurance income and expense

The Bank recognises and accounts for income and expenses from insurance products in accordance with their economic substance. Due to the economic substance, the Bank distinguishes between the following types of fees:

1. fees which are an integral part of the consideration for the financial instrument additionally offered,
2. fees which are consideration for performing additional activities after the sale of the insurance product,
3. fees received for the provision of insurance intermediation services.

Consideration received or receivable by the Bank from sale of an insurance product with a financial instrument where the insurance product is directly linked to the financial instrument is an integral part of the consideration for the financial instrument and is accounted for over time as an integral part of interest rate and recognised as interest income in the statement of profit or loss.

A direct link exists in particular when at least one of the following two conditions is met:

1. a financial instrument is always offered by the Bank with an insurance product, i.e., both transactions are concluded at the same time or are concluded in a sequence in which each subsequent transaction follows from the previous one,
2. an insurance product is offered by the Bank exclusively with a financial instrument, i.e., the client cannot purchase from the Bank an insurance product identical in terms of its legal form, terms and economic content without buying a combined financial product.

If one of the conditions is not met, a detailed analysis of the economic content of the insurance product is carried out in order to determine whether the criteria for independence of insurance contracts from the financial instruments offered are met. The analysis of a direct link between an insurance product and a financial instrument may result in unbundling of the composite product, i.e., separating the fair value of the financial instrument from the fair value of the insurance product sold together with the instrument. In such a case, the consideration due to the Bank for the sale of the insurance product is divided between the part constituting an element of the amortised cost of the financial instrument and the part constituting consideration for the distribution of the insurance product.

The consideration is allocated in proportion to the fair value of the financial instrument and the fair value of the distribution service relative to the total of the fair values. The fair value of the financial instrument is calculated using the income approach, based on the calculation of the present value of the future amounts, taking into account the product's current profitability and cost. The fair value of the consideration for the intermediation (distribution) service is calculated using the market method by applying prices and other relevant information generated by identical or comparable market transactions.

The Bank recognizes the consideration as fee and commission income at the time of sale or renewal of the insurance product. The revenue from sale of insurance products is reduced by a provision for the Bank-estimated percentage of refunds made in periods after the sale of the insurance product (e.g. due to cancellation of the insurance by the client). If during the term of the insurance contract the Bank receives consideration for performing activities/services resulting from the sold insurance product or if performance of such activities/services is probable, the Bank accounts for the consideration during the contract term, in accordance with the principle of matching revenues with costs. The consideration is recognized as fee and commission income, based on progress towards complete satisfaction of the performance obligation. Where it is not possible to accurately determine the number of activities performed by the Bank over a specified period of time, the Bank accounts for the consideration on a straight-line basis over the life of the insurance product unless there is evidence that another method of accounting would better illustrate the degree of progress of the work.

The amount of anticipated returns and the proportion of revenue distribution based on the economic content of the revenue are reviewed each time relevant information on significant changes in this respect becomes available, but not less frequently than at the reporting date.

Costs directly related to the sale of an insurance product with a financial instrument are accounted for in accordance with the principle of matching revenues with costs:

1. as a component of the amortised cost of a financial instrument if all revenue from the sale of the insurance product is accounted for using the effective interest rate method,
2. if the consideration has been split – in the proportion applied to split the revenue into revenue recognised under the amortised cost calculation and revenue recognised on a one-off basis or settled over time.

Fixed costs or costs not related directly to the sale of insurance products or financial instruments are recognised in profit or loss when incurred.

## 5.10. Hedge accounting

Hedge accounting is used to offset changes in the fair value of hedged items and hedging items.

Under the transitional provisions of IFRS 9, the Bank decided to continue to apply IAS 39 to hedge accounting.

The Bank may decide to apply the hedge-accounting requirements of IFRS 9 at a later date. In accordance with the hedge accounting principles contained in IFRS 9, it is necessary to apply the requirements of IFRS 9 in the event of implementation of subsequent fair value or cash flow hedge accounting at the Bank.

The Bank applies hedge accounting provided that all of the following criteria specified in IAS 39 are met:

1. at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge; the documentation identifies the hedging instrument, the hedged item, the nature of the hedged risk and the manner in which the Bank will assess the effectiveness of the hedging instrument in offsetting the threat of changes in the fair value of the hedged item;
2. the hedge is expected to be highly effective in offsetting changes in fair value, consistent with the risk management strategy originally documented for that particular hedging relationship;
3. the effectiveness of the hedge can be reliably measured, i.e., the fair value of the hedged item and the fair value of the hedging instrument can be reliably measured;
4. the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedge accounting is an integral part of the financial risk management process at BOŚ S.A.

Financial risk is managed as part of the risk management process in place at the Bank.

The Bank uses hedge accounting to hedge the fair value of financial instruments. Fair value hedge is a hedge against changes in the fair value of a recognized asset, liability or probable future liability or an identified portion of this recognized asset, liability or probable future liability, which can be attributed to a particular risk and can affect the profit or loss.

A fair value hedge that meets the conditions for hedge accounting in a given period is recognised by the Bank as follows:

1. changes in fair value of a hedging instrument (i.e., derivative instrument designed and qualified as fair value hedge) is recognized in profit or loss,
2. the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss,
3. interest on hedging derivatives is presented in the same line of the statement of profit or loss in which interest on the hedged instruments is presented, i.e., as interest income,
4. measurement of a hedged financial asset classified as measured at fair value through other comprehensive income arising from factors other than the hedged risks is recognised in revaluation reserve until the asset is disposed of or has matured.

The Bank discontinues to apply hedge accounting in the event of expiry, sale, termination or execution of the hedging instrument/hedged item, or when the hedging relationship no longer meets the criteria for hedge accounting. When hedge accounting ceases to be applied, the measurement of hedged items that are measured at amortised cost (without applying hedge accounting policies) attributable to the hedged risk recognised in the periods when the hedge was effective is taken to profit or loss.

The Bank does not apply cash flow hedge accounting.

## 5.11. Investments in subsidiaries

Investments in subsidiaries are recognised and measured using the equity method set out in IAS 28, including impairment losses. At the acquisition date, investments in subsidiaries are recognised at cost. After the acquisition date, the carrying amount of the investment is measured by recognising changes in the equity of subsidiaries. The

Bank's net profit (loss) includes the Bank's interest in net profit (loss) of its subsidiaries, and any unrealised losses on cross transactions are eliminated. The carrying amount of investments in subsidiaries is assessed for impairment.

As at of December 31st 2021, the Bank Ochrony Środowiska Group included two direct subsidiaries, i.e., Dom Maklerski S.A. and BOŚ Leasing EKO-Profit S.A., and one indirect subsidiary, MS WIND sp. z o.o. (a direct subsidiary of BOŚ Leasing EKO-Profit S.A.).

All subsidiaries are wholly-owned by the Bank.

## 5.12. Financial assets and liabilities

### Initial recognition

The Bank recognises a financial asset and a financial liability in its statement of financial position when it becomes party to the contractual provisions for that financial instrument. Financial assets are recognised when the Bank acquires the right to receive cash flows, and financial liabilities – when it is required to pay cash. At initial recognition, financial assets and liabilities are classified in the appropriate measurement category.

At initial recognition, financial assets and liabilities are measured at fair value, which, in the case of items not measured at fair value in subsequent periods, is increased or reduced by direct transaction costs.

### Measurement of financial assets after initial recognition

After initial recognition, the Bank measures financial assets in accordance with the classification rules, at amortised cost or at fair value.

Amortised cost is the amount at which a financial asset or a financial liability is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any difference between the initial amount and the amount at maturity, calculated using the effective interest rate method, and minus any impairment losses. Penalty interest is recognised at amortised cost.

Fair value measurement involves determining the value that would be received to dispose of an asset or paid to transfer a liability in an arm's length transaction in the principal (or most advantageous) market at the measurement date in current market conditions (i.e., the exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

### Classification and measurement of financial assets

Under IFRS 9, financial assets are classified to the appropriate measurement model at initial recognition. The Bank's financial assets are classified to the following measurement categories:

1. Financial assets measured at amortised cost,
2. Financial assets measured at fair value through other comprehensive income,
3. Financial assets measured at fair value through profit or loss,
4. Financial assets measured at fair value through profit or loss.



Classification into the measurement categories is based on:

1. the business model within which the financial assets are managed, and
2. The test of characteristics of contractual cash flows (the SPPI test – solely payments of principal and interest).

### Business models

The business models are defined by the Bank's key management. The business models identified by the Bank reflect its operating activity, i.e., the method of managing a specific group of assets and the purpose for which these assets were recognised or acquired. Individual identified business models are groups of assets that are jointly managed, assessed and reported.

When identifying business models for each group of financial assets, the Group considers their qualitative aspects and quantitative criteria.

### Qualitative aspects

The qualitative aspects include analysis and assessment of:

1. the business objective for which the assets were recognised or acquired,
2. how performance of assets within a particular business model is evaluated and reported to the Bank's key management and presented as part of external reporting,
3. the reasons for decisions to sell financial assets,
4. solutions and organizational structures within which specific groups of assets are recognised or acquired,
5. the type of risk affecting performance of individual asset groups,
6. the manner in which the managers of particular groups of assets are remunerated, in particular whether the remuneration is based in part or in whole on the fair value of the managed assets.

### Quantitative criteria

The quantitative criteria used in the identification and periodic review of business models relate to the assessment of materiality and frequency of sale of assets held within particular models. It is assumed that in the HtC business model, the sale of financial assets is allowed in particular in the following cases:

1. if the assessment of cash flow recoverability deteriorates, in order to limit the effects of credit risk,
2. close to the contractual maturity,
3. occasional sale (even if the amount of assets sold is significant),
4. insignificant value of the assets sold.

If the quantitative criteria, such as significant and frequent sale of financial assets with no deteriorated credit risk assessment, are not met, it is necessary to reassign the entire portfolio of financial assets, from which the sale was effected, and thus to change the classification of this portfolio to the value category.

Following analyses, the Bank's financial assets were allocated to the following business models:

1. the Held to Collect (HtC) model,  
a model whose objective is achieved by collecting contractual cash flows. Assets held within the HtC model are credit facilities and loans, receivables purchased as part of the factoring business, and debt securities acquired for investment purposes.
2. the HtCS (Held to Collect or Sell) model,  
a model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Assets held within the HtCS model are debt securities acquired to secure current liquidity needs and the yield profile.
3. Other business models  
Assets acquired within other business models are assets acquired trading purposes to generated profit from changes in their market value or to earn remuneration in the form of trading spread. These business models apply mainly to derivative financial instruments and securities.

### SPPI test

As required by IFRS 9, financial assets held within the HtC and HtCS models are subject to the SPPI test. The SPPI test should be performed for each financial asset in the HtC and HtCS models at initial recognition and when the asset is materially modified.

The objective of the SPPI test is to confirm that contractual cash flows resulting from these financial assets are solely payments of principal and interest on the principal amount outstanding, where:

1. the principal is the fair value of the financial asset at initial recognition.
2. the interest consists of consideration for the time value of money, for the credit risk, for the liquidity risk, administrative costs, as well as a profit margin.

The SPPI test includes, in particular, an analysis of the cash flow characteristics in relation to early repayment and rollover terms, changes in the currency of the financial asset, terms that increase the volatility of cash flows beyond the volatility resulting from changes in market interest rates (e.g., leverage), terms that limit the possibility of financial redress against specific assets of the debtor.

### Classification of financial assets to measurement categories based on business models and the SPPI test

Business models	SPPI test	
	Cash flows are solely payments of the principal and interest	Cash flows are not solely payments of the principal and interest
HtC Model	measured at amortised cost	measurement at fair value through profit or loss
HtCS Model	measurement at fair value through other comprehensive income	measurement at fair value through profit or loss
Other business models	The SPPI test is not performed; obligatory measurement at fair value through profit or loss	

### Financial assets by measurement category

1. financial assets measured at amortised cost  
This measurement category primarily includes amounts due from retail and institutional clients. It also includes receivables purchased as part of the factoring business, debt securities in the investment portfolio held to collect contractual cash flows, and amounts due from banks, including buy-sell back transactions.
2. Financial assets measured at fair value through other comprehensive income  
This measurement category includes debt securities acquired to secure current liquidity needs and the yield profile, held to collect contractual cash flows and for sale, as well as investment equity securities.
3. Financial assets measured at fair value through profit or loss  
This measurement category includes derivative financial instruments and debt securities purchased for trading purposes.  
Credit facilities with interest rates structured as a multiplier of a benchmark rate, disclosed as amounts due from clients, constitute a separate item in this measurement category. This item includes preferential loans granted with support from the public sector.

Due to on-going discussions on the classification and measurement of financial instruments that include a multiplier, the above approach may change in the future.

### Change of measurement category of a financial instrument

A change of the financial assets measurement category can occur only as a result of a change of the business model. A change of business objectives related to a financial assets or a change in assignment of the asset to a given business line are not considered a change of the business model.

Change of a measurement category due to the business model change is recognized prospectively, i.e., as of its date.

Financial liabilities are not reclassified.

### Modification of financial assets

The Bank identifies a modification of a financial asset when there is a change in the contract under which the financial asset arose, affecting the amount and timing of cash flows. Cash flow changes resulting from the initial

contract with the client are not recognised as modifications. A change in the contractual terms of repayment may be made for both credit risk management and commercial reasons.

The Bank distinguishes between significant and non-significant modifications of financial assets.

### **Quantitative criterion**

A significant modification consists of a change in contractual terms of payment for a given financial asset and gives rise to a difference of more than 10% between the amount of future cash flows resulting from the modified financial asset discounted with the original effective interest rate and the amount of future cash flows resulting from the financial asset before the modification discounted with the same interest rate. If difference is less than 10%, the modification is non-significant.

### **Qualitative criterion**

A modification of financial assets under the circumstances presented below is recognised as a significant modification:

- addition of a feature that affects results of the SPPI test,
- a change in the currency of a facility not provided for in the initial contract terms,
- a change of the counterparty, which is considered a significant modification.

### **Significant modification**

A significant modification results in derecognition of the original asset from the statement of financial position, recognition in profit or loss account of unsettled costs and commissions, and initial recognition of a financial asset resulting from the modification. A new effective interest rate is established for the modified asset.

### **Non-significant modification**

A non-significant modification does not result in derecognition of the existing financial assets in the statement of financial condition. Gain (loss) on a non-significant modification is recognised in profit or loss.

### **Impairment of financial assets**

IFRS 9 introduced a new approach to estimating losses on financial assets measured at amortised cost and at fair value through other comprehensive income. This approach is usually based on determination of expected losses.

Recognition of expected losses depends on the change in the level of risk since the initial recognition of a financial asset. The Bank identifies three key buckets of financial assets in the context of changes in the level of risk:

- Bucket 1 – includes exposures for which there has been no significant increase in credit risk since initial recognition, understood as an increase in the probability of insolvency. For such exposures, expected losses are recognised for the next 12 months or until the maturity date of the exposure if it falls in less than 12 months.
- Bucket 2 – includes exposures for which there has been a significant increase in the level of risk since initial recognition, but the event of default has not yet become probable. For such exposures, expected losses are recognised for the remaining life of the exposure.
- Bucket 3 – includes exposures for which events of default have materialised (there is an indication of impairment). For such exposures, expected losses are recognised over the remaining life of the exposure.

The Bank also identifies POCI (Purchased or Originated Credit Impaired) assets, i.e., financial assets that were credit-impaired at the date of initial recognition. For POCI exposures, expected losses are recognised over the remaining life of the exposure.

For the purposes of estimating loss allowances, the Bank uses its own estimates of risk parameters based on internal models consistent with IFRS 9. Expected credit losses are the product of individual estimated values of PD, LGD and EAD parameters for each exposure, and the final amount of expected losses is the sum of expected losses in individual periods (depending on the bucket – over the next 12 months or over the remaining life), discounted using the effective interest rate. The parameters estimated in accordance with IFRS 9 are subject to adjustment on account of macroeconomic scenarios.

Measurement of allowances for expected credit losses, provisions for financial guarantees and financing commitments in the Polish and in foreign currencies (including currency exchange differences) is recognised as the Bank's expense or income arising from the allowances and provisions.

### **Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount is disclosed in the statement of financial position only when the Bank has a legally enforceable right to offset the recognised amounts and intends to settle on a net basis, or the realize the asset and the settle the liability simultaneously.

### **Financial liabilities**

Financial liabilities after initial recognition are measured at amortised cost using the effective interest rate method. The Bank derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires.

Liabilities arising from derivative financial instruments are measured at fair value through profit or loss.

### **Equity investments**

Equity investments are classified as measured at fair value through other comprehensive income. Classification of equity investments into this measurement category is irrevocable. Gains or losses resulting from the difference between the selling price and the purchase price or from a change in the fair value of these investments are not recognised in the statement of profit or loss even if an investment is sold. Only dividend income is recognised in the statement of profit or loss.

Equity investments were classified as measured at fair value through other comprehensive income because of their investment nature and the way economic benefits are achieved through dividends received.

Equity instruments classified as measured at fair value through other comprehensive income are measured using the capital asset pricing model. The model uses financial forecasts of individual companies and market parameters such as cost of capital and beta coefficient calculated based on data from comparable companies as well as discount, liquidity premium and control premium.

### **Sell and buy-back transactions**

Securities sold under repurchase agreements (repo transactions, sell-buy-back transactions) are disclosed in the financial statements as securities if the entity retains substantially all risk and rewards incidental to ownership of such securities. A liability to a counterparty is recognised in amounts due to other banks or amounts due to clients, as appropriate.

Securities purchased under agreements to resell (reverse repo transactions, buy-sell-back transactions) are recognised as amounts due from other banks or amounts due from clients, as appropriate. The difference between the selling price and the repurchase price is treated as interest and accounted for on a straight-line basis over the term of the agreement.

Securities lent to counterparties are not derecognised from the Bank's balance sheet.

Securities borrowed by the Bank are not recognised in the financial statements unless they are sold to third parties. In such a case, the purchase and sale transactions are recognised in the financial statements and the relevant gains and losses are taken to profit or loss on trading activities.

The obligation to return borrowed securities is recorded at fair value as amounts due to clients. The risk and rewards incidental to ownership of the securities are retained by the counterparty.

### **Trade receivables and contract assets**

In the case of trade receivables and contract assets, the Bank measures expected credit losses over the entire life of those assets.

## 5.13. Non-current assets held for sale

Non-current assets are classified as "held for sale" and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The Bank does not carry assets held for sale.

## 5.14. Intangible assets

### Licenses and software

Purchased licenses and internally developed computer software are capitalized at the amount of the costs incurred to purchase and prepare the software for use. Capitalised costs are amortised over the estimated useful life of the software on a straight-line basis.

Expenses related to maintenance of computer programs are recognised as costs when incurred or as deferred costs.

Useful lives of intangible assets range from 1 to 15 years.

### Expenditure on intangible assets

The Bank recognises expenditure on intangible assets incurred in the development phase of projects carried out internally only if the Bank has the appropriate technical and financial means to complete the development and use of the asset, and has the possibility to reliably determine the expenditure incurred that can be directly attributed to the creation, production and adaptation of the asset for use in the manner intended by the management.

Capitalised costs are amortised on a straight-line basis upon completion of development work. Estimated useful lives of such assets are determined on a case-by-case basis.

### Impairment testing

Intangible assets are tested for impairment whenever there are events or circumstances indicating that the carrying amount may not be recoverable. The carrying amount is immediately reduced to the recoverable amount if the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

## 5.15. Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation. Historical cost includes expenditure directly related to the acquisition of the assets.

Subsequent expenditure is included in the carrying amount of an item of property, plant and equipment or recognised as a separate item of property, plant and equipment (where appropriate) only when it is probable that future economic benefits associated with the item will flow to the Bank and its cost can be measured reliably. All other repair and maintenance expenses are charged to profit or loss in the accounting period in which they are incurred. Land is not depreciated.

Property, plant and equipment are depreciated on a straight-line basis over their useful lives, which for each class of property, plant and equipment are:

1. Buildings – 40 years,
2. Leasehold improvements – 2-12 years or less if the contract so requires,
3. Equipment and vehicles – 3-20 years.

The residual value and useful lives of property, plant and equipment are also reviewed as at each reporting date.

Depreciable items of property, plant and equipment are tested for impairment whenever there are events or circumstances indicating that the carrying amount may not be recoverable. The carrying amount is immediately reduced to the recoverable amount if the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the fair value of an item of property, plant and equipment less costs to sell and value in use.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds from sale with the respective carrying amounts and recognised in profit or loss.

Property, plant and equipment under construction include assets in the course of construction or assembly, and are measured at cost less any impairment losses. An item of property, plant and equipment under construction is not depreciated until the construction or assembly work is completed and the item is placed in use.

## 5.16. Leases

The Bank classifies as leases all contracts under which it uses or leases out non-current assets for a specified period in exchange for consideration.

### The Bank as the lessor

As the lessor, the Bank classifies lease contracts as finance leases or operating leases.

The Bank classifies contracts that transfer substantially all risks and rewards incidental to ownership of the leased assets as finance leases. Other lease contracts are classified as operating leases.

### The Bank as the lessee

At the inception of the lease, the Bank, as the lessee, recognises a right-of-use asset and a lease liability.

The liability arises from the present value of future cash flows (lease payments under the lease contract) discounted using the interest rate of the lease.

The Bank applies exemptions from the requirements of IFRS 16 concerning

1. use of low-value assets – the value of the asset does not exceed PLN 20 thousand,
2. short-term leases of up to 12 months.

For exempt contracts, the Bank does not recognise right-of-use assets and lease liabilities. Lease payments related to such contracts are recognised as expenses in the statement of profit or loss on a straight-line basis during the lease term.

When determining the lease term, the Bank determines the non-cancellable lease term, taking into account the period covered by the extension option, if the Bank assumes the option will be exercised, and by the termination option if the Bank assumes that it will not be exercised.

The Bank revises the lease term if there is a change in the non-cancellable period of the lease.

After the commencement date of the lease, the Bank measures the right-of-use asset at cost:

1. less any accumulated depreciation and impairment losses; and
2. adjusted for remeasurement of the lease liability.

After the commencement date, the Bank measures the lease liability by:

1. increasing the carrying amount to reflect interest expense on the lease liability;
2. reducing the carrying amount to reflect the lease payments made;
3. remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised fixed lease payments.

The Bank accounts for a lease modification as a separate lease if both:

1. the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
2. the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope.

For a lease modification that is not accounted for as a separate lease, the Bank remeasures the liability by discounting the updated lease payments using an updated discount rate and recognises the remeasurement by:

1. reducing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for modifications that decrease the scope of the lease;



2. making a corresponding adjustment to the right-of-use asset for other lease modifications.

## 5.17. Deferred income tax

For the purposes of these financial statements, deferred tax is calculated using the balance-sheet liability method. The Bank recognises deferred tax liabilities and assets for temporary differences arising from different recognition of revenue and costs in accordance with the applicable accounting principles and corporate income tax rules.

Main temporary differences arise from remeasurement of financial assets and liabilities, including derivative contracts, provisions for retirement and other post-employment benefits, as well as deductible tax losses.

Deferred tax provisions are recognized in full amount, with the exception of:

1. where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss, and
2. in the case of taxable temporary differences arising from investments in subsidiaries or associates and interests in joint ventures – except where the timing of the reversal of the temporary difference is controlled by the investor and where it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which the temporary differences can be utilised, except where a deferred tax asset arises from the initial recognition of an asset or liability arising from a transaction that:

1. is not a business combination; and
2. at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Income tax on items recognised in other comprehensive income is also recognised in other comprehensive income.

Deferred income tax is determined using the tax rates (and tax laws) that are expected to be effective when the related deferred tax assets are realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose future effect is certain as at the reporting date.

The Bank offsets deferred tax assets against deferred income tax liabilities only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

## 5.18. Foreclosed assets

Foreclosed assets are initially recognized at their fair value. If the fair value of a foreclosed asset is higher than the amount of the debt, the difference constitutes an amount due to the borrower and is reimbursed to the account of the owner of the foreclosed asset, after deducting costs of the foreclosure, storage and valuation of the asset.

If the fair value of a foreclosed asset is lower than the amount of the debt, the difference constitutes an amount due from the borrower which may be subject to restructuring or collection.

The Bank has no assets repossessed for debt.

## 5.19. Prepayments, accruals and deferred income

Prepayments are costs incurred in the current financial year and relating to future periods. They are disclosed in the statement of financial position as other assets.

Accrued expenses are costs pertaining to the current period that will be incurred by the Bank in future periods. Accrued expenses and deferred income are disclosed in the statement of financial position as other liabilities.

## 5.20. Provisions for employee benefits

The Bank recognises provisions for retirement benefit obligations based on estimates of such obligations calculated using an actuarial model. The actuarial model applied by the entity to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, uses the projected unit credit method.

The projected unit credit method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The entire amount of actuarial gains and losses is recognised in other comprehensive income.

## 5.21. Provisions

Provisions are recognised when all of the following conditions are met:

1. as at the reporting date, the Bank has a present, legal or constructive obligation to spend funds resulting from past events, and legal opinions are used to determine the existence of this obligation,
2. when the probability of there being an expense to settle the claim is greater than the probability of there not being such an expense, and
3. when the amount of that expenditure can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation, taking into account the time value of money (if material) and the risks associated with the liability. When the amount of the expected expenditure is discounted, the increase in the provision due to the passage of time is recognised as interest expense.

## 5.22. Equity

Equity is composed of capital and reserves created in accordance with the legal regulations, i.e., the respective acts and the Bank's Articles of Association.

### Common equity

Common equity comprises registered share capital and share premium.

The share capital is stated at par, in accordance with the Articles of Association and the entry in the National Court Register.

The share premium account is created from the excess proceeds from the issue of shares above par value remaining after covering the issue costs.

### Treasury shares

Amounts paid for repurchases of treasury shares are charged to equity and disclosed in the separate line item 'Treasury shares' in the statement of financial position.

### Revaluation reserve

The revaluation reserve comprises the change in the amount value of financial assets classified as measured at fair value through other comprehensive income resulting from their measurement and deferred tax on items recognised in the revaluation reserve, gains or losses on a hedging instrument (cash flow hedge accounting) due to the effective portion of the hedge and gains and losses on a hedged item measured at fair value through other comprehensive income (fair value hedge accounting) due to factors other than the hedged item, as well as actuarial gains and losses on a defined benefit plan.

### Retained earnings

Retained earnings include undistributed profit or loss and other components of equity, i.e., other statutory reserve

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funds, other capital reserves and general risk fund.

Other components of equity are recognised in profit or loss and are used for the purposes specified in the Articles of Association or the applicable laws.

## 5.23. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise items maturing within three months of the acquisition date, including: cash in hand, unrestricted balances with central banks, Treasury bills and other eligible bills, amounts due from other banks and short-term Treasury securities.

## 5.24. New standards, interpretations and amendments thereto published and approved by the European Union but not yet effective and not yet applied by the Bank

IFRS	Amendment	Date of entry into force in the EU / approval by the EU	Effect on the Bank
IFRS 17 <i>Insurance Contracts</i> , amendments to IFRS 17	<p>IFRS 17 <i>Insurance Contracts</i> will replace IFRS 4 <i>Insurance Contracts</i>, which currently allows continued recognition of insurance contracts in accordance with the accounting policies applicable in national standards and which, as a result, implies a number of different solutions. IFRS 17 requires consistent accounting for all insurance contracts. Contractual obligations will be recognised at present value rather than historical cost. The standard is to be applied on a full retrospective basis (if that is not practicable, the entity should use either the modified retrospective approach or the fair value approach).</p> <p>The purpose of the amendments is to:</p> <ul style="list-style-type: none"> <li>– reduce costs by simplifying some of the standard requirements;</li> <li>- facilitate clarification of financial results; and</li> <li>– facilitate transition to the new standard by deferring the effective date of the standard until 2023 and introducing additional expedients to facilitate the first implementation of IFRS 17.</li> </ul>	January 1st 2023 / November 19th 2021	The amendment will have no material effect on the financial statements.
Amendments to IFRS 3 <i>Business Combinations</i> ; Amendments IAS 16 <i>Property, Plant and Equipment</i> ; Amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> ; Annual Improvements to IFRS Standards 2018–2020	<p>The amendments to IFRS 3 <i>Business Combinations</i> update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.</p> <p>The amendments to IAS 16 <i>Property, Plant and Equipment</i> prohibit deducting from the cost of property, plant and equipment the amounts received from the sale of items produced in preparation for the asset's intended use. Instead, the company should recognise proceeds from the sale and the related costs in the statement of profit or loss.</p> <p>The amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> specify what costs an entity considers when assessing whether a contract will result in a loss.</p> <p>The Annual Improvements make minor changes to IFRS 1 <i>First-time Adoption of IFRS</i>, IFRS 9 <i>Financial Instruments</i>, IAS 41 <i>Agriculture</i> and the Illustrative Examples accompanying IFRS 16 <i>Leases</i>.</p>	January 1st 2022 / June 28th 2021	The amendment will have no material effect on the financial statements.

## 5.25. New standards, interpretations and amendments thereto, which have been published and are not endorsed by the European Union

IFRS	Amendment	Date of entry into force in the EU / approval by the EU	Effect on the Bank
IFRS 17 <i>Insurance Contracts: First-time Adoption of IFRS 17 and IFRS 9 – Comparative Information</i>	<p>The amendments provide a transition option for comparative information on financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities, thereby improving the usefulness of comparative information for users of financial statements.</p> <p>IFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after January 1st 2023.</p>	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.
Amendments to IAS 1 <i>Presentation of Financial Statements – Classification of Liabilities</i>	The amendments concern the presentation of liabilities in the statement of financial position. In particular, they clarify that the classification of liabilities as current or non-current should be based on the rights existing at the end of the reporting period. The amendments will apply prospectively.	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.
Amendment to IAS 8 <i>Definition of Accounting Estimates</i>	In the amendment to IAS 8 <i>Definition of Accounting Estimates</i> , the definition of change in accounting estimates was replaced by the definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The Board also clarified the new definition through additional guidance and examples of how accounting principles and accounting estimates are related and how a change in valuation technique constitutes a change in accounting estimates. The introduction of the definition of accounting estimates and other amendments to IAS 8 were intended to help entities distinguish between changes in accounting policies and changes in accounting estimates.	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2 <i>Disclosure of Accounting Policies</i>	<p>The amendments to IAS 1 and IFRS 2 Practice Statement 2 are intended to help preparers decide which accounting policies to disclose in their financial statements. The amendments require disclosure of material accounting policy information rather than significant accounting policies. Guidance was provided on how an entity can identify material accounting policy information.</p> <p>The amendments clarify that accounting policy information may be material by its nature even if the amounts are immaterial and if users of financial statements would need it to understand other relevant information in the financial statements.</p>	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.
Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments are intended to clarify how companies should account for deferred taxes on leases and extinguished liabilities.	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.
IFRS 14 <i>Regulatory Deferral Accounts</i>	(effective for annual periods beginning on or after January 1st 2016) – the European Commission decided not to commence the process of approval of this interim standard for use in the EU until the final version of IFRS 14 is issued.	Not specified	The amendment will have no material effect on the financial statements.
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures:	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> , and subsequent amendments, the effective date postponed until completion of research on the equity method.	Not specified	The amendment will have no material effect on the financial statements.

## 6. Corrections of prior period errors

In the twelve months ended December 31st 2021, there were no corrections to prior period errors.

## 7. Significant estimates and judgments

The preparation of the Bank's financial statements requires judgments, estimates and assumptions that affect the reported income, expenses, assets, and liabilities and related notes, as well as disclosure of contingent liabilities. Uncertainties related to these assumptions and estimates may result in changes to carrying amounts of assets and liabilities in the future. They also require exercising professional judgment in the process of applying the adopted accounting policies.

The Bank made the assumptions and estimates concerning the future based on historical data and its knowledge as at the time of preparation of these financial statements. The estimates and assumptions are reviewed on an ongoing basis. The assumptions and estimates may change in the future due to market developments or other events beyond the Bank's control. Changes in assumptions and estimates are recognised in the period of the change or in the period of the change and future periods if the change in estimates and assumptions relate to the current period and future periods.

### 7.1. Financial assets

#### Impairment of amounts due from clients

The Bank reviews all credit exposures on a monthly basis to identify credit exposures threatened with impairment and measures the impairment of credit exposures. The measurement of impairment is based mainly on estimating the probability of impairment based on historical analysis, estimating potential losses (LGD parameter) and assessing the macroeconomic environment in which the Bank operates.

The models used to estimate allowances for expected credit losses constructed in accordance with IFRS 9 consist of elements for which the Bank uses available historical information and forecasts. When using these models, the Bank estimates the level of credit risk with the highest possible accuracy.

Expected credit losses are calculated using the survival model with monthly granularity, as well as the PG, LGD and EAD parameters determined individually for each exposure, taking into account the exposure's expected duration.

The resulting amount of expected credit losses is the sum total of expected losses in each period (over the 12-month horizon for Bucket 1 or the remaining lifetime for Buckets 2 and 3 and the POCI assets) discounted using the effective interest rate.

The structure of the models used to estimate expected credit losses includes modelling for the following parameters:

- PD (probability of default) – estimated probability of default over a given time horizon (12-month or lifetime),
- LGD (loss given default) – part of the exposure that would not be recovered in case of default,
- EAD (exposure at default) – expected amount of exposure at the time of default.

The model also contains a component comprising macroeconomic forecasts. Due to the significant share of unique credit exposures in the Bank's portfolio, whose characteristics and structure indicate little connection between their risk and the macroeconomic environment, the historically observed impact of forecasts was not material to the valuation. Accordingly, the sensitivity of the estimated loss to changes in macroeconomic forecasts is very limited. Considering the ongoing COVID-19 pandemic and the continuing risk of deterioration in the quality of the Bank's loan portfolio, the Bank continues to adjust the PD parameter to reflect the sensitivity of individual industries to the COVID-19-induced crisis. The following three severity groups have been identified:

1. clients whose business has not been affected by the pandemic;
2. clients whose industries/sectors have been affected by the pandemic to a limited extent;
3. clients from industries/sectors severely affected by the credit/default risk.

The amount of the allowance for expected credit losses recognised so far on this account is PLN 25.9 million.

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With the pandemic ongoing, the amount of the allowance continues to be expected to vary from period to period due to changes in the classification of exposures. Estimating expected credit losses over the life of an exposure is subject to greater estimation uncertainty than estimating losses over the next 12 months due, in principle, to the longer period over which unexpected factors affecting the risk may occur. The financial condition of some of the Bank's clients may deteriorate, despite the support and relief offered to mitigate the effects of the pandemic.

Theoretical reallocation as at December 31st 2021 of 1% of Bucket 1 exposures with the highest risk level to Bucket 2 for each type of exposure would result in a PLN 34.3 million increase in the amount of allowances.

In December 2021, the sensitivity of the amount of impairment allowances to changes in the LGD parameters was analysed using the group method. If recovery rates changed by +/- 10 percentage points, the estimated amount of loss allowances for clients would decrease by PLN 28.8 million or increase by PLN 28.8 million, respectively.

### **SPPI test**

The SPPI test is an assessment of whether the cash flows arising from financial assets held in the HtC and HtCS models constitute only payments of principal and interest on the principal. This assessment (in addition to the business model) determines the classification of financial assets into the category of measurement at amortised cost or fair value through other comprehensive income. Therefore, this assessment is crucial for the adoption of a correct measurement principle for loan agreements and other financial contracts that are the core business of the Bank.

Under IFRS 9, the amount of principal amount is the fair value the financial assets at initial recognition. Interest represents consideration for the time value of money, a margin for the credit risk and other risks incurred in holding the principal, and a profit margin.

The SPPI test includes an analysis of concluded contracts/agreements to determine cash flow characteristics resulting from these contracts/agreements. The SPPI test is considered to permit classification into the amortized cost or fair value through other comprehensive income measurement categories if there are no identified characteristics of cash flows whose timing or formula for determining their value depends on factors other than those that meet the definition of principal and interest on principal. The characteristics that do not meet this definition include:

- leverage,
- making the consideration contingent on conditions unrelated to the time value of money or the risk incurred,
- early repayment options, but early repayment in an amount equal to the unpaid portion of principal and interest including reasonable early repayment consideration is deemed to satisfy the SPPI test.

The Bank conducts the SPPI test for all financial assets subject to this assessment, with the SPPI test being conducted at the product group level for assets originated under standard documentation, while for negotiated assets it is conducted on a contract-by-contract basis. The SPPI test resulted in the identification of a portion of loan agreements where the interest rate is based on a multiplier formula (leverage). These are some of the preferential loans provided with support from the National Fund for Environmental Protection and Water Management. Accordingly, the loans were classified as measured at fair value through profit or loss.

### **Business model**

Assessment of the business model is an important estimation due to the fact that, under IFRS 9, it is one of the elements determining the classification of financial assets to an appropriate measurement category. The Bank establishes business models within which financial assets are managed, based primarily on their business objectives and the manner in which financial results are achieved. Changes in the business model may occur only in case of material internal or external changes in the activities of the Bank, and will be determined by the management. Business models are expected to be changed rarely. Specifically, a change in business objective for a particular financial asset does not constitute a change in the business model.

## **7.2. Fair value of financial instruments**

The value of financial instruments not listed in active markets is determined using valuation models accepted by the market. They take into account, among other things, the present value of future cash flows (discounted using a zero coupon curve with a margin), comparable transaction prices (if any), as well as reference to similar instruments

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quoted in active markets. In the rare cases where it is not possible to use such models and fair value cannot be determined reliably, financial instruments are carried at cost. For information on the sensitivity of financial instruments, see Note 49.

### 7.3. Provision for retirement benefits

Any employee who reaches retirement age is entitled to a retirement benefit.

Retirement benefits related to pre-retirement benefits or allowances and retirements as part of collective redundancies are not included in the calculation and if they occur in the future, the provision should be separately recalculated.

An employee who has acquired disability pension entitlements under social security due to permanent incapacity to work has a right to a disability benefit.

Both the retirement benefit and the disability benefit are calculated on the basis of the employee's remuneration, calculated as holiday pay, at the time when the benefit entitlement has been accrued.

Depending on the length of service at Bank Ochrony Środowiska S.A., the amount of retirement benefit is as follows:

- up to 10 years of service 100%,
- more than 10 years of service 200%,
- more than 15 years of service 250%.

The calculation was based on employees' salaries and wages as at December 31st 2021.

### 7.4. Taxation

The Polish law on corporate income tax, personal income tax, value added tax or social security contributions is subject to frequent changes, resulting in the lack of well-established practice, ambiguity and inconsistency. This situation gives rise to differences in the interpretation of tax legislation by public authorities and taxpayers. Tax settlements and other settlements (e.g., settlement of customs duties) may be subject to inspection by competent authorities for up to six years. The competent authorities have the power to impose significant penalties with interest. There is a risk that the authorities bodies will take a different stance from that of the Company with respect to the interpretation of the regulations, which could affect the amount of public charges disclosed in the financial statements.

The Bank recognises a deferred tax asset based on the assumption that taxable profit will be earned in the future to allow the asset to be utilised. If taxable profit deteriorates in the future, this assumption may prove unwarranted.

### 7.5. Provision for legal risk concerning the portfolio of mortgage-backed loans tied to foreign currency exchange rate

The estimate of the provision for legal risk of mortgage-backed loans tied to foreign currency exchange rates may be subject to error due to the relatively small number of court cases that ended with a final judgement. Therefore, this estimate is uncertain and the amount of the provision may change in the future. The provision is subject to periodic monitoring and reviews.

The Bank performed a sensitivity analysis of the estimate of the litigation provision due to the change in key parameters related to the probability of the Bank losing court cases and the probability of the scenario whereby loan agreements are declared invalid.

PLNm

MODEL SENSITIVITY	PARAMETER CHANGE		
	-25 p.p.	BASE-CASE SCENARIO	+25 p.p.
PROBABILITY OF LOSING COURT CASE*	-61	462	24
PROBABILITY OF LOAN BEING DECARED INVALID*	-9	462	16
WILLINGNESS OF THE CLIENTS TO REACH AGREEMENT**	-74	462	74

\* – in the case of the +25% option, the maximum value of the parameter, i.e., 100%, was assumed.

\*\* – if 100% of the loans were to be concluded with a compromise and settlement agreement, the amount of the provision would need to be adjusted by PLN 99 million and the net effect would be negative at PLN -25 million.

See Note 18 'Effect of legal risk of mortgage loans denominated in foreign currencies' and Note 37 'Provisions' for factors and circumstances that could have a material impact on the amount of the legal risk provision.

## 7.6. Provision for refund of loan costs in case of early repayment

The provision for reimbursement of consumer credit costs on account of early repayment was recognised in accordance with IAS 37, with the assumptions regarding early repayment of consumer credit made for the loan portfolio as at December 31st 2021.

As at December 31st 2021, four court proceedings were pending against the Bank for reimbursement of consumer credit costs on account of early repayment. The amount of the provision for early repayment refunds was PLN 0.95 million.

## 8. Risk management

### 8.1. Credit risk

#### Definition of credit risk

Credit risk is defined as the risk of potential loss due to default by a client or counterparty at a contractual date.

In 2021, to mitigate the negative impact of economic consequences of the COVID-19 pandemic on the loan portfolio quality, the Bank continued to apply specific client financing and monitoring measures adopted in 2020, 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.

#### Credit risk management methods

The Bank pursues its credit risk management policy on an individual basis (credit transaction) and on a portfolio basis taking into account the level of risk appetite.

The risk appetite was determined within the limits set by prudent and stable risk management practices and is assumed to be moderate.

The credit risk management process at the Bank included in particular:

1. procedures for assessing the risk of a single transaction, establishing collateral and making credit decisions,
2. monitoring the level of risk, setting exposure limits, and stress-testing,
3. rating and scoring models applied to assess the risk of retail and institutional clients,
4. principles of responsibility in the credit risk assessment process,
5. portfolio-based assessment of credit risk,
6. rules for management of retail and mortgage-backed exposures,
7. rules for identifying impaired exposures and determining impairment losses,
8. rules of reporting to the Bank's management staff,
9. IT systems supporting the implementation of these tasks.

Credit risk at the transaction level was managed in accordance with the following rules:

1. each credit transaction required a comprehensive assessment of credit risk, reflected in an internal rating or scoring,
2. credit decisions were based on client's creditworthiness,
3. credit risk of potential and concluded credit transactions was measured at origination and was subsequently monitored,
4. the credit process ensured independence of the credit risk assessment functions from the sales function,
5. credit decisions were made by persons authorized to do so,
6. terms of credit transactions offered to clients depended on the level of credit risk associated with a given client and/or transaction.

The financing of a single transaction was conditional on:

1. the borrower's ability to repay the requested facility in accordance with the schedule agreed upon with the Bank,
2. provision of collateral in the form and in the amount acceptable to the Bank in so far as internal regulations require,
3. 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 portfolio credit risk was managed using various methods of credit risk measurement and assessment, including:

1. assessment of the likelihood of insolvency,
2. assessment of the expected credit loss,
3. the matrix of migration between delinquency periods and classes of risk,
4. credit generation analysis (analysis of loans provided over a given period of time),
5. the share and structure of impaired exposures and exposures that are not impaired but for which impairment indicators have been identified.

The Bank has a Credit Risk Management Committee whose purpose is to shape the principles of credit risk management and monitoring, within the framework defined by the relevant strategy, policy or rules adopted by the Management Board or the Supervisory Board of the Bank.

The Committee operates in the following core areas:

1. credit risk management and credit process,
2. valuation of assets,
3. credit risk assessment models and methodologies.

In addition, the Supervisory Board is supported in its risk oversight functions by the Risk Committee. The Risk Committee is composed of members of the Supervisory Board. In particular, the Committee gives its opinion on the Bank's overall current and future risk appetite and risk management strategy, supports the Supervisory Board in the implementation of this strategy, and verifies whether the prices of assets and liabilities offered to clients are fully consistent with the Bank's business model and its risk strategy.

### **Processes established for risk management**

In 2021, the Bank continued efforts to improve the efficiency of its risk assessment processes, including optimisation of the credit monitoring, credit decision, and credit application processes, and took steps to reduce the credit portfolio concentration level.

As part of its risk monitoring process, the Bank performed risk assessments prior to the origination and throughout the life of loan transactions. For risk assessment principles, see 'Risk assessment techniques'.

The frequency and scope of risk monitoring depended on the level of the identified risk. The monitoring was carried out by a separate organisational unit within the credit risk assessment and management functions; the units responsibilities include monitoring of the loan portfolio and valuation of individually significant exposures.

The risk of untimely debt service or default as well as and the risk of loss or decrease in the value of collateral were mitigated using an early warning system, managed by the risk monitoring unit.

If the Bank identified a situation that could jeopardize timely debt repayment, the Bank used reminders and carried out restructuring procedures using appropriate IT tools.

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

In the process of risk assessment and monitoring, the Bank used information from internal databases and external sources, including from Biuro Informacji Kredytowej S.A. (credit bureau), Krajowy Rejestr Długów (debt register) and Centralna Bazy Danych – Bankowy Rejestr (bank register).

The Bank assessed credit risk using rating and scoring models. The models were built, developed, monitored and supervised by the Risk Area, taking into account internal and external requirements. Significant models were subject to periodical validation at least annually, performed by an independent validation unit.

The Bank operated a multi-level 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. Credit decisions are made upon prior verification of risk made by a risk assessment and management specialist, i.e., a risk expert from a separate organizational unit in the Bank's Head Office, independent from the sales functions.

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 preferred collateralised transactions, with the proviso that in the retail segment the maximum amount of unsecured transactions was determined taking into account features of credit products, the impact of such transactions on the Bank's performance 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:

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

In assessing, monitoring, verifying and updating the value of collateral, the Bank uses external databases, including AMRON and Cenatorium.

### **Risk assessment techniques**

Clients and transactions were subject to a comprehensive credit risk assessment process incorporating the relevant regulatory requirements.

The Bank applied various risk assessment models, depending on the type of client and credit transaction.

The credit risk assessment model for retail clients (natural persons) seeking financing for non-business purposes included quantitative analysis (determination of the amount and stability of sources of funds for debt repayment) and qualitative analysis (assessment of characteristics of the client that have a material bearing on the client's willingness to repay the credit obligation in accordance with the agreed schedule, including scoring and assessment of the client's behaviour based on information from Biuro Informacji Kredytowej S.A.). 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/DStl and LtV ratios and the applicability of the simplified credit assessment procedure.

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.

Client assessment involved quantitative and qualitative elements. The quantitative assessment focused on the key areas of the client's business activity with a bearing on profit generation capacity and financial liquidity. Depending on the type of client, 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.

To the extent specified in the Bank's internal regulations, client assessment was made against the background of the economic situation in the client's industry, on the local market and in the country. In addition, for selected transactions, the assessment took into account the scale of the client's exposure to negative effects of movements in interest rates and foreign exchange rates as well as the client's policy of hedging against foreign exchange and interest rate risks.

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 group.

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

## Impact of the COVID-19 pandemic on the Bank's credit risk

In order to mitigate the negative impact of the COVID-19 pandemic on the quality of the loan portfolio, in 2020 the Bank implemented a number of risk mitigating measures, including with respect to new financial applications, and continued to apply the measures in 2021, including:

1. blanket ban on funding for industries that were particularly affected by the pandemic,
2. reducing LtV limits for mortgage loans,
3. tighter criteria for retail lending.

The Bank also continued to apply assistance instruments and facilities for borrowers, first introduced in 2020, to mitigate the effects of the pandemic, including but not limited to:

1. special rules governing financing and monitoring of clients, in line with the solutions proposed by the PFSA in the Supervisory Stimulus Package for Security and Development,
2. possibility of granting financing based on forward-looking creditworthiness and simplified liquidity projections, while adjusting the main measures of credit risk to the degree of economic uncertainty,

During the pandemic, the Bank modified the restrictions depending on market conditions, reducing or removing most of the restrictions on personal financing and the LtV limits for residential loans.

## Credit risk assessment tools

In order to measure credit risk, the Bank uses various tools/applications in which the applicable rating/scoring models and creditworthiness assessment methodology have been implemented.

The diversity of applications used is related to customer segmentation and/or types of credit transactions.

## Description of individual concentration risks, methods of their assessment and monitoring

The Bank managed concentration risk in accordance with the rules set out in the Concentration Risk Management Policy.

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

1. an individual client/transaction, and
2. the loan portfolio.

At the 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 or the Banking Law Act, 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.

At the loan portfolio level, the concentration risk was managed by observing internal limits or warning values approved by the Management Board or the Supervisory Board of the Bank for limits used by the Bank to determine the acceptable level of appetite for credit risk.

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,
- sector limits;
- limits for credit exposures towards 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 an early warning system for internal limits. The system is based on distinguishing three levels of limit utilisation and gradual implementation of measures mitigating the risk of exceeding the limit.

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

### 8.1.1. Methodology for recognising impairment of credit exposures

At each reporting date, the Bank reviews credit exposures, which consists in identification of credit exposures threatened with impairment and exposures with regard to which a significant increase in credit risk has been reported since their initial recognition – taking into account reasonable and supportable information, including forward-looking information. Subsequently, it designates an allowance for expected credit losses based on the allocation of the exposure to three Buckets depending on changes in credit quality. As a general rule, all new exposures other than POCI assets and clients on the watch list are allocated to Bucket 1 exposures.

Based on the amount and the risk profile, the Bank classifies credit exposures into exposures measured individually and exposures measured using the group method, and assesses them for any indications of impairment.

Apart from POCI assets, the Bank recognises as impaired those exposures for which there has been indications of impairment due to one or more events occurring after the initial recognition and the event giving rise to a loss affects the exposure's expected cash flows which can be reliably estimated.

As of January 1st 2021, the Bank amended the rules of identification of impairment indicators in compliance with the requirements of the European Banking Authority (EBA) No. EBA/GL/2016/07. The main change in this regard was the change in the rules of determining days past due, which is based on the continuity of the material past due situation, as referred to in the "Regulation of the Minister of Finance, Investment and Development dated October 3rd 2019 on the level of materiality of past due credit obligations".

The Bank considers a past due credit receivable to be material when both materiality thresholds are exceeded: 1) the sum of all past due liabilities of the obligor exceeds PLN 400 for retail exposures or PLN 2,000 for non-retail exposures and 2) the share of the past due liabilities in the obligor's balance sheet is greater than 1%. The calculation of the number of days past due is performed at the obligor level and begins when a material past due situation occurs, i.e., when both the absolute and relative materiality thresholds are exceeded.

In particular, the Bank recognises the following as indications of impairment:

1. material delay in payment of principal or interest of more than 90 days past due and, for banks, a delay in payment of principal or interest of more than 7 days past due. The Bank also considers a delay in payment of more than 90 days past due from the maturity date of the principal or interest to be an indication of default if the exposure is not deemed to be materially past due when the past due amount exceeds PLN 100,
2. deterioration of the economic and financial standing of the debtor during the facility term which causes reclassification of the debtor to rating class 14 or worse, reflecting a threat to the repayment of the debt,
3. granting by the Bank to the client, for economic or legal reasons arising from the client's economic and financial distress, of a concession in the terms of financing (conclusion of a restructuring agreement),
4. deterioration of financial metrics, including liquidity and debt service capacity of the client,
5. granting credit holidays under public moratoriums (on the basis of the Tarcza 4.0 government aid scheme),
6. a claim being challenged in court by the obligor,

7. declaration of bankruptcy, high probability of bankruptcy or other reorganisation affecting the debtor's financial condition and solvency,
8. other circumstances defined in the EBA Guidelines and occurrence of other events that are equivalent to the client's becoming insolvent, resulting in the client's inability to repay the debt on time.

Additionally, credit exposures related to the financing of wind farm projects are also considered to be impaired if there is a cash deficit during the term of the facility and if the company's valuation turns negative in the scenario of potential debt restructuring modelled by the Bank until the end of the financing period.

Measurement of impairment of credit exposures using the case-by-case approach is based on the calculation of the present value of expected future cash flows discounted at the original effective interest rate. For loans with collateral, the present value of expected future cash flows includes the cash flows that may be obtained from enforcement of the collateral, less the costs of enforcement and sale of the collateral. For credit exposures related to financing of wind farm projects, the present value of expected future cash flows is estimated on the basis of a valuation model which simulates individual cash flows that are likely to be generated by a given project based on specified, modifiable valuation parameters. If the present value of realisable cash flows declines, an allowance is recognised in the amount corresponding to the expected credit loss due to the debtor's failure to meet its obligations to the Bank.

The individual (case-by-case) approach to impairment assessment is applied to:

1. individually significant credit exposures:
  - a. which meet the criteria for recognition of individual impairment or which are quarantined; or
  - b. which are an exposure to a client to which the Bank has other credit exposures for which an indication of impairment has been identified (propagation of impairment); or
2. individually non-significant credit exposures for which an indication of impairment has been identified or exposures are quarantined, provided that at the time of recognition of impairment they were individually significant and met additional conditions specified by the Bank,
3. individual non-significant credit exposures with unique credit risk characteristics.

Impairment losses on receivables which are considered individually non-significant and for which evidence of impairment has been identified are calculated based on impairment measurement parameters estimated using statistical methods based on historical data for separate portfolios grouped for combined measurement of impairment according to similar credit risk characteristics. Historical loss trends are adjusted for non-recurring events.

As part of the group approach, the Bank applies a breakdown into the following seven homogeneous risk portfolios within the two client segments (retail and institutional):

1. retail mortgage loans (the portfolio is further segmented by level of LTV and loan currency),
2. retail cash loans,
3. retail mortgage-backed cash loans,
4. retail credit exposures to micro retail businesses (excluding mortgage loans),
5. other retail clients,
6. corporate clients, including financial institutions,
7. public finance clients.

Reversal of a loss, i.e., reclassification of a loan to unimpaired exposures is possible after the evidence of impairment ceases to exist and after the lapse of a quarantine period in which no impairment evidence is identified.

For the exposures for which no evidence of impairment has been identified, the Bank recognises loss allowance the group approach.

For the purposes of assessing whether there has been a significant increase in credit risk since initial recognition, the Bank compares the risk of default over the expected period of funding as at the reporting date and as at the date of initial recognition. The Bank considers that a significant increase in credit risk has been identified for an asset if the quantitative or qualitative criterion is met or if the time past due exceeds 30 days; the criteria are reviewed at the level of exposures.



### **Quantitative criteria**

The reference underlying the allocation of retail exposures to Bucket 2 is determined by the Bank as the difference between:

- 1.** the current credit risk assessment defined as a lifetime PD in the time horizon from the reporting date to the maturity date, determined on the basis of risk characteristics applicable at the reporting date,
- 2.** the initial credit risk assessment defined as a lifetime PD in the time horizon from the reporting date to the maturity date, determined on the basis of risk characteristics applicable at the date of initial recognition.

The Bank determines a significant deterioration in credit risk by comparing the observed value of a relative change in risk assessment with its theoretical value, which is the threshold above which the Bank considers a significant deterioration in credit risk to have occurred.

The allocation threshold at the level of a single exposure is determined using a statistical model based, among other things, on information about credit risk assessment as at the date of initial recognition and the time since the date of initial recognition.

For corporate exposures, allocation to Bucket 2 is based on the assumption that the rating of the exposure remains stable over time (the Bank did not expect the rating to improve over time) and occurs as a result of a deterioration in the debtor's economic and financial standing during the facility term, which is reflected in rating grade 12 or 13, or allocation to a rating grade 9-11 if the rating assigned at initial recognition was lower than 6.

## Qualitative criteria

The Bank allocates exposures to Bucket 2 in the following cases:

1. there is a delay in repayment (beyond a specified material threshold) of more than 30 days as at the reporting date or such delay has been reported at least once on the last three reporting dates,
2. forborne exposure for which the evidence of impairment has ceased to exist and the quarantine period, during which the evidence was not identified, has expired,
3. an exposure become a forborne exposure.

In addition to the above criteria, the Bank defined other specific qualitative criteria, such as criteria specific to clients in a given sector, criteria identified in the course of monitoring of institutional clients (exposures with higher risk, exposures on watch list), or exposures identified through multi-factor and holistic credit risk analysis.

In accordance with IFRS 9 5.5.10, the Bank distinguishes exposures with low credit risk. A credit exposure has a low risk of default if the borrower has a strong short-term capacity to meet its contractual obligations and adverse changes in economic and business conditions over the longer term may – but not necessarily will – reduce the borrower's ability to meet its contractual cash flow obligations.

The Bank applies the Low Credit Risk criterion for exposures to the State Treasury, National Bank of Poland, Bank Gospodarstwa Krajowego, central government institutions, clearing houses, the European Investment Bank and local government units that do not meet the qualitative criteria for classification to Bucket 2 and for which no evidence of impairment has been identified.

For the purposes of estimating impairment losses (expected credit losses), the Bank continues to use its own estimates of risk parameters based on internal models consistent with the requirements of IFRS 9 requirements (such as exposure lifetime estimates or forecasts of future macroeconomic conditions). The Bank has developed a parametrisation methodology and built models consistent with IFRS 9. Expected credit losses are the product of individual estimated values of PD, LGD, EAD and CCF parameters for each exposure, and the final amount of expected losses is the sum of expected losses in individual periods (depending on the Bucket – over the next 12 months or over the remaining life), discounted using the effective interest rate. The parameters estimated in accordance with IFRS 9 are subsequently adjusted to reflect expectations regarding the macroeconomic situation. The Bank adjusts risk parameters to take account of future macroeconomic information (such as GDP, unemployment rate, WIBOR, FX rates, inflation) for portfolios for which it has identified relevant relationships with such information. Internally developed scenarios are used. Forecasts prepared by the Bank's economic analysts are the source of macroeconomic inputs.

The amount of allowances for expected credit losses, provisions for financial guarantees and financing commitments in the Polish and in foreign currencies (including currency exchange differences) is recognised as the Bank's expense or income arising from the allowances and provisions.

The methodology and assumptions adopted by the Bank to estimate impairment are reviewed on a regular basis in order to reduce the difference between estimated and actual losses. Back-esting is performed to assess the adequacy of impairment losses determined using the group method and the case-by-case approach; results of back-esting are used to determine process improvement measures.

## 8.1.2. Amounts due from banks

Below are presented gross amounts due from other banks by rating groups:

Item	December 31st 2021	December 31st 2020
AA+	-	7,957
AA	284,621	864
AA-	10,062	21,061
A+	68,423	49,465
A	1,376	16,871
A-	280	28,135
BBB+	10,212	3,016
BBB-	969	538
<b>unrated</b>		
	14,509	14,108
<b>Total</b>	<b>390,452</b>	<b>142,015</b>

Internal rating	Corresponding unified class according to external rating agencies	December 31st 2021	Corresponding unified class according to external rating agencies	December 31st 2020
A	AAA, AA+, AA, AA-		AAA, AA+, AA, AA-	
B	A+, A, A-		A+, A, A-	
C	BBB+, BBB, BBB-		BBB+, BBB, BBB-	
D	BB+, BB, BB-, B+, B, B-		BB+, BB, BB-, B+, B, B-	
E		14,509		14,108
<b>Total</b>		<b>14,509</b>		<b>14,108</b>

### 8.1.3. Amounts due from clients

Item	December 31st 2021	December 31st 2020
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST</b>		
Amounts due from clients without indications of impairment, including:	11,194,022	10,991,922
<i>exposures without significant credit risk increase since initial recognition (Bucket 1)</i>	9,877,442	8,520,818
<i>of which: wind farms</i>	948,603	-
<i>exposures with significant increase in risk since initial recognition (Bucket 2)</i>	1,316,580	2,471,104
<i>of which: wind farms</i>	49,790	1,168,694
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	21,754	358,808
<i>of which: wind farms</i>	12,842	241,329
Amounts due from clients with indications of impairment, impaired (Bucket 3)	1,715,462	1,677,430
<i>of which: wind farms</i>	-	13,434
<b>Total amounts due from clients measured at amortised cost (gross)</b>	<b>12,931,238</b>	<b>13,028,160</b>
<b>Impairment losses on:</b>		
<i>amounts due from clients – (Bucket 1)</i>	- 88,461	-85,011
<i>of which: wind farms</i>	- 12,454	-
<i>amounts due from clients – (Bucket 2)</i>	- 81,079	-128,655
<i>of which: wind farms</i>	- 1,304	- 30,947
<i>amounts due from clients – (Bucket 3) with no indications of impairment</i>	- 588	- 11,097
<i>of which: wind farms</i>	- 504	- 9,586
<i>amounts due from clients – (Bucket 3) with indications of impairment</i>	- 938,389	-971,361
<i>of which: wind farms</i>	-	- 1,578
<b>Total impairment losses</b>	<b>- 1,108,517</b>	<b>- 1,196,124</b>
<b>Total amounts due from clients measured at amortised cost (net)</b>	<b>11,822,721</b>	<b>11,832,036</b>
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
Fair value	14,111	25,514
<i>of which: wind farms</i>	-	-
<b>Total amounts due from clients measured at fair value through profit or loss</b>	<b>14,111</b>	<b>25,514</b>
Security deposits	32,768	31,704
Other amounts due from clients	2,638	2,599
<b>Total amounts due from clients</b>	<b>11,872,238</b>	<b>11,891,853</b>

**Classification of amounts due from clients by measurement category, by segment:**

December 31st 2021	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST</b>					
Amounts due from clients without indications of impairment, including:	8,089,142	3,104,880	2,575,685	529,195	11,194,022
<i>exposures without significant credit risk increase since initial recognition (Bucket 1)</i>	6,950,879	2,926,563	2,423,287	503,276	9,877,442
<i>of which: wind farms</i>	948,603	-	-	-	948,603
<i>exposures with significant increase in risk since initial recognition (Bucket 2)</i>	1,138,263	178,317	152,398	25,919	1,316,580
<i>of which: wind farms</i>	49,790	-	-	-	49,790
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	17,765	3,989	2,732	1,257	21,754
<i>of which: wind farms</i>	12,842	-	-	-	12,842
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,233,590	481,872	356,593	125,279	1,715,462
<i>individually assessed</i>	1,198,787	105,197	90,382	14,815	1,303,984
<i>of which: wind farms</i>	-	-	-	-	-
<b>Total amounts due from clients measured at amortised cost (gross)</b>	<b>9,340,497</b>	<b>3,590,741</b>	<b>2,935,010</b>	<b>655,731</b>	<b>12,931,238</b>

December 31st 2021	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
<b>Impairment losses on:</b>					
amounts due from clients – (Bucket 1)	-70,058	-18,403	-9,357	-9,046	-88,461
<i>of which: wind farms</i>	-12,454	-	-	-	-12,454
amounts due from clients – (Bucket 2)	-65,405	-15,674	-10,831	-4,843	-81,079
<i>of which: wind farms</i>	-1,304	-	-	-	-1,304
amounts due from clients – (Bucket 3) with no indications of impairment	-569	-19	-11	-8	-588
<i>of which: wind farms</i>	-504	-	-	-	-504
amounts due from clients – (Bucket 3) with indications of impairment, including:	-656,386	-282,003	-186,718	-95,285	-938,389
<i>individually assessed</i>	-631,519	-54,331	-48,396	-5,935	-685,850
<i>of which: wind farms</i>	-	-	-	-	-
<b>Total impairment losses</b>	<b>-792,418</b>	<b>-316,099</b>	<b>-206,917</b>	<b>-109,182</b>	<b>-1,108,517</b>
<b>Total amounts due from clients measured at amortised cost (net)</b>	<b>8,548,079</b>	<b>3,274,642</b>	<b>2,728,093</b>	<b>546,549</b>	<b>11,822,721</b>
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>					
Fair value	13,460	651	257	394	14,111
<i>of which: wind farms</i>	-	-	-	-	-
<b>Total amounts due from clients measured at fair value through profit or loss</b>	<b>13,460</b>	<b>651</b>	<b>257</b>	<b>394</b>	<b>14,111</b>
Security deposits	32,768	-	-	-	32,768
Other amounts due from clients	2,638	-	-	-	2,638
<b>Total amounts due from clients</b>	<b>8,596,945</b>	<b>3,275,293</b>	<b>2,728,350</b>	<b>546,943</b>	<b>11,872,238</b>

December 31st 2020	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST</b>					
Amounts due from clients without indications of impairment, including:	7,690,377	3,301,545	2,719,897	581,648	10,991,922
<i>exposures without significant credit risk increase since initial recognition (Bucket 1)</i>	5,421,590	3,099,228	2,556,871	542,357	8,520,818
<i>exposures with significant increase in risk since initial recognition (Bucket 2)</i>	2,268,787	202,317	163,026	39,291	2,471,104
<i>of which: wind farms</i>	1,168,694	-	-	-	1,168,694
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	355,191	3,617	2,160	1,457	358,808
<i>of which: wind farms</i>	241,329	-	-	-	241,329
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,185,000	492,430	309,245	183,185	1,677,430
<i>individually assessed</i>	1,130,569	120,045	100,001	20,044	1,250,614
<i>of which: wind farms</i>	13,434	-	-	-	13,434
<b>Total amounts due from clients measured at amortised cost (gross)</b>	<b>9,230,568</b>	<b>3,797,592</b>	<b>3,031,302</b>	<b>766,290</b>	<b>13,028,160</b>

December 31st 2020	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
<b>Impairment losses on:</b>					
amounts due from clients – (Bucket 1)	-69,502	-15,509	-5,340	-10,169	-85,011
amounts due from clients – (Bucket 2)	-106,965	-21,690	-13,243	-8,447	-128,655
<i>of which: wind farms</i>	-30,947	-	-	-	-30,947
amounts due from clients – (Bucket 3) with no indications of impairment	-11,086	-11	-4	-7	-11,097
<i>of which: wind farms</i>	-9,586	-	-	-	-9,586
amounts due from clients – (Bucket 3) with indications of impairment, including:	-672,002	-299,359	-166,842	-132,517	-971,361
<i>individually assessed</i>	-629,700	-63,600	-54,670	-8,930	-693,300
<i>of which: wind farms</i>	-1,578	-	-	-	-1,578
<b>Total impairment losses</b>	<b>-859,555</b>	<b>-336,569</b>	<b>-185,429</b>	<b>-151,140</b>	<b>-1,196,124</b>
<b>Total amounts due from clients measured at amortised cost (net)</b>	<b>8,371,013</b>	<b>3,461,023</b>	<b>2,845,873</b>	<b>615,150</b>	<b>11,832,036</b>
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>					
Fair value	24,322	1,192	427	765	25,514
<i>of which: wind farms</i>	-	-	-	-	-
<b>Total amounts due from clients measured at fair value through profit or loss</b>	<b>24,322</b>	<b>1,192</b>	<b>427</b>	<b>765</b>	<b>25,514</b>
Security deposits	31,704	-	-	-	31,704
Other amounts due from clients	2,599	-	-	-	2,599
<b>Total amounts due from clients</b>	<b>8,429,638</b>	<b>3,462,215</b>	<b>2,846,300</b>	<b>615,915</b>	<b>11,891,853</b>



## Amounts due from clients measured at amortised cost (gross ) that are not past due and are not impaired

Amounts due from clients measured at amortized cost which are not past due (for even one day) are considered as not impaired if there is no other evidence of impairment. These are amounts due from clients with good economic and financial standing, with regular repayments for which there has been no indication of impairment, and impairment has been recognised for incurred but unidentified losses.

General characteristics of the rating classes are presented below:

<b>Rating 1</b>	Highest credit quality
<b>Rating 2</b>	Very high credit quality
<b>Rating 3</b>	High credit quality
<b>Ratings 4-5</b>	Very good credit quality
<b>Ratings 6-7</b>	Good credit quality
<b>Ratings 8-9</b>	Satisfactory credit quality
<b>Ratings 10-11</b>	Average and poor credit quality
<b>Ratings 12-13</b>	Very weak credit quality
<b>Ratings 14-16</b>	No creditworthiness (credit quality does not exist).

Below are presented gross amounts due from clients measured at amortised cost that were not past due and for which no impairment was recognised, by client classes:

Item	Rating*	December 31st 2021	December 31st 2020
Amounts due from institutional clients	(1-3)	7,508	302
	(4-5)	94,282	122,542
	(6-7)	1,039,972	1,197,397
	(8-9)	3,125,584	3,014,878
	(10-11)	3,241,245	2,598,389
	(12-13)	447,866	642,253
	unrated	122,675	51,367
<b>Total amounts due from institutional clients</b>		<b>8,079,132</b>	<b>7,627,128</b>
Amounts due from retail clients	unrated	3,009,390	3,194,971
<b>Total amounts due from retail clients</b>		<b>3,009,390</b>	<b>3,194,971</b>
<b>Total</b>		<b>11,088,522</b>	<b>10,822,099</b>

The ratings are presented as at the reporting date.

\*\ The ratings are consistent with the Bank's internal classification, where "1" is the best rating and "16" is the worst rating.

### Amounts due from clients measured at amortised cost (gross) that are past due at the reporting date but not impaired, by client categories and days past due, with general description

Past-due exposure is the total of amounts due from clients in arrears for one or more days. No impairment is recognised for amounts due from clients past due less than 90 days, unless other available information provides evidence of impairment.

Below are presented gross amounts due from clients measured at amortised cost that were past due and for which no impairment was recognised, by client classes:

December 31st 2021 Days past due	Institutional clients	Retail clients	Total
from 1 to 30 days	3,420	78,392	81,812
from 31 to 60 days	6,590	14,707	21,297
from 61 to 90 days	-	2,391	2,391
<b>Total</b>	<b>10,010</b>	<b>95,490</b>	<b>105,500</b>

December 31st 2020 Days past due	Institutional clients	Retail clients	Total
from 1 to 30 days	16,653	84,433	101,086
from 31 to 60 days	46,546	16,831	63,377
from 61 to 90 days	50	5,043	5,093
over 90 days	-	267	267
<b>Total</b>	<b>63,249</b>	<b>106,574</b>	<b>169,823</b>

### Amounts due from clients measured at amortised cost (gross) with recognised impairment, by client categories, with general description

Below are presented impaired amounts due from clients measured at amortised cost, by segment:

Item	December 31st 2021	December 31st 2020
Amounts due from institutional clients	1,233,590	1,185,000
Amounts due from retail clients	481,872	492,430
<b>Total</b>	<b>1,715,462</b>	<b>1,677,430</b>

## Rating/scoring groups of amounts due from clients (gross), by client segment

Item	Rating	December 31st 2021	December 31st 2020
Amounts due from institutional clients	(1-3)	7,508	302
	(4-5)	107,853	148,259
	(6-7)	1,047,278	1,229,350
	(8-9)	3,179,351	3,116,843
	(10-11)	3,381,608	2,842,556
	(12-13)	652,614	963,341
	(14-16)	829,618	863,809
	unrated	148,127	90,430
<b>Total amounts due from institutional clients</b>		<b>9,353,957</b>	<b>9,254,890</b>
Amounts due from retail clients	unrated	3,591,392	3,798,784
<b>Total amounts due from retail clients</b>		<b>3,591,392</b>	<b>3,798,784</b>
<b>Total</b>		<b>12,945,349</b>	<b>13,053,674</b>

The ratings are presented as at the reporting date.

\*\ The ratings are consistent with the Bank's internal classification, where "1" is the best rating and "16" is the worst rating.

## Description of collateral pledged for loans

The Bank accepted both physical assets as well as personal guarantees as collateral. The rules for establishing collateral provide that collateral must adequate to the level of risk generated by a transaction.

The Bank preferred loan collateral:

1. that would enable the Bank to reduce the amount of allowances,
2. that would be readily marketable, with proceeds from sale potentially enabling the Bank to recover the entire amount of the claim.

When selecting the form of security, the Bank reviews the key criteria determining its effectiveness, including:

1. marketability of the collateral, i.e., the ability to sell the collateral without a significant decrease in its price and with reasonable promptness, i.e., in the period of time which does not expose the Bank to a change in the value of the collateral due to price movements typical for a given assets,
2. amount that reasonably recoverable in debt collection proceedings, taking into account legal, economic and other constraints which may affect the actual ability of the Bank to satisfy its claims,
3. access and ability to control the collateral during the term of the exposure.

The principle applied in the Bank was to establish a legal collateral, if required, before facility disbursement.

The Bank adjusted the value of the collateral using adjustment rates determined on a case-by-case basis for each type of collateral. As a general rule, the value of the collateral was monitored over the entire lending period.

In the case of mortgage-backed exposures, the Bank followed Recommendation S regarding the maximum LTV and required that borrowers provide equity contribution.

In the process of monitoring the value of real property, the Bank would carry out portfolio revaluation on a regular basis, using statistical methods.

In the case of real estate collateral, the valuation of collateral was prepared by an expert with the necessary qualifications and experience in property appraisal. The Bank verified valuations using data from such sources as the AMRON System (system of analysis and monitoring of real estate transactions) and the Cenatorium Database.

### **Foreclosed assets**

The Bank classifies repossessed collateral as 'foreclosed assets' and measures them in accordance with the accounting policies specified in the Note 5.18 to the consolidated financial statements.

Prior to foreclosure, it is mandatory that the Bank has a plan how to use/dispose of the collateral assets once repossessed. A document specifying how the foreclosed asset is to be used/disposed of contains all the information that is relevant to make the foreclosure decision, and in particular:

1. information on costs expected to be incurred for possible caretaking, storage, insurance, taxes, etc.
2. information on the potential buyer, the negotiated price and the terms of payment – if the foreclosed asset is planned to be sold,
3. profitability of the transaction.

In most cases, buyers for such assets were already identified at the time of foreclosure and the transactions were profitable for the Bank. Upon sale, the amount of the debt was reduced by the amount of proceeds rather than by the amount estimated by the appraiser (usually prices obtained in transactions to sell foreclosed assets are lower than the assets' value determined by the appraiser).

One of the forms of recovering debts is their sale. Selling price of debt claims depend, among other things, on property collateral. Where sale of loans (with debt collateralised by property assets) is more profitable than foreclosure and subsequent sale, the Bank sells the debt claims together with the underlying collateral.

As at December 31st 2021 and December 31st 2020, the Bank did not hold any foreclosed assets.

### **Credit exposure to wind farms**

Part of the Bank's corporate loan portfolio consists of exposures originated in past years to finance onshore wind farms benefiting from the support system in the form of green certificates.

The total amount of the Bank's exposure to this group of clients as at December 31st 2021 was PLN 1,011.2 million compared with PLN 1,423.5 million at year-end 2020. The approximately 30% decrease in the balance of the exposure was, apart from the regular amortisation of debt reflecting the contractual loan repayment schedules, a result of voluntary and mandatory loan prepayments by borrowers as well as business decisions by some shareholders to repay the entire debt.

In Q3 2021, the Bank joined a consortium to co-finance the construction of two wind farm projects with a total 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; the facilities are scheduled to be disbursed in the first quarter of 2022.

### **Material risks arising from financing wind farm projects**

Risks related to financing of this group of clients, including in particular market and regulatory risks affecting their economic and financial standing, are identified by the Bank as part of ongoing monitoring and taken into account in the process of assessment of individual exposures carried out on a monthly basis with the use of a dedicated valuation model.

The risk of volatility in market prices of electricity and green certificates is addressed by implementing in the valuation model the price paths projected by the Bank for the medium and long term. The projected price paths are updated on a semi-annual basis based on reports from reputable independent external experts. The risk of potential decline in revenue generated by the clients due to a periodic decline in energy prices and/or green certificates is mitigated by reserve accounts, with funds deposited in such accounts intended to support day-to-day servicing of loans.

### **Impact of the coronavirus pandemic on the business of RES clients**

The economic downturn caused by COVID-19 has not affected, to date, the financial condition of the wind farm clients. The loans are serviced on a timely basis and in accordance with the agreed repayment schedules.

### **Risk arising from changes in property tax base**

The amendment to the Act on amendments to the Act on renewable energy sources and certain other acts, published on June 29th 2018, restored, with retroactive effect as of January 1st 2018, provisions governing taxation of wind power plants with property tax, in force before January 1st 2017.

The amended regulations deprived municipalities, where wind power plants are located, of higher property tax revenue. Under the amended legislation, project owners applied to tax authorities for correction of previously submitted tax returns or for refund of overpaid tax. As a result, ten municipalities filed a joint complaint with the Constitutional Court to examine the compliance of the new regulations with the Constitution.

On July 22nd 2020, the Constitutional Court ruled that the retroactive reduction of property tax liabilities on wind farms for 2018 was unconstitutional. The Constitutional Tribunal obliged the legislator to enact appropriate legal solutions that would compensate local governments for the lost revenue.

Such solutions were introduced by the Act of November 17th 2021 on the compensation of revenue lost by municipalities in 2018 due to the change in the scope of taxation of wind power plants; the law came into force on February 5th 2022. Compensation payments will be funded from the special purpose reserve of the state budget.

Thus, the risk identified previously by the Bank that the borrowers would have to bear additional tax burdens in order to compensate the communes for the lost tax revenue was eliminated.

### **Risk of legal dispute of Bank's clients with Energa-Obrót S.A.**

Actions taken by Energa Obrót S.A. in September 2017, resulting in the performance of twenty-two framework CPA agreements for the collection of property rights under certificates of origin for RES energy (green certificates) being discontinued and filing with the competent courts of actions against trading partners and banks for declaration of absolute invalidity of the agreements affected eight clients financed by the Bank.

All court proceedings involving clients of the Bank concluded with final judgments of the Court of Appeal dismissing Energa Obrót S.A.'s claims. Energa Obrót S.A. resumed performance of the contracts and purchases of property rights at contractual prices in accordance with the final judgements.

By the end of the fourth quarter of 2021 Energa Obrót S.A. filed a cassation appeal against four of the judgments that were favorable to the clients of the Bank, and in one case the Supreme Court refused to accept the appeal for examination. The decision is not appealable, therefore, the case was finally closed in favour of the client. Further proceedings in the remaining three cases are pending before the Supreme Court. The last client is waiting for Energa Obrót S.A. to file a similar cassation complaint against the verdict of the Court of Appeal.

As at December 31st 2021, five of the Bank's clients were in litigation with Energa Obrót S.A.; the Bank's total exposure to the clients was PLN 79.9 million, representing 7.9% of the total exposure in the wind farm portfolio.

The Bank monitors the status of the pending proceedings. All debts of the clients who are in litigation with Energa Obrót S.A. are serviced in a timely manner.

As at December 31st 2021, Bank did not act as a co-respondent in any of the pending court disputes with Energa Obrót S.A., thus the Bank did not identify any risk of having to incur additional costs arising from the proceedings.

## Impairment losses recognised for the wind farm portfolio

Item	December 31st 2021	December 31st 2020
<b>Amounts due from clients measured at amortised cost</b>		
Amounts due from clients with no indication of impairment for which there has been no significant increase in risk since initial recognition (Bucket 1)	948,603	-
Amounts due from clients with no indication of impairment for which there has been a significant increase in risk since initial recognition (Bucket 2)	49,790	1,168,694
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	12,842	241,329
Amounts due from clients with indication of impairment, impaired (Bucket 3)	-	13,434
<b>Total amounts due from clients measured at amortised cost (gross)</b>	<b>1,011,235</b>	<b>1,423,457</b>
<b>Impairment losses on:</b>		
<i>amounts due from clients – (Bucket 1)</i>	- 12,454	-
<i>amounts due from clients – (Bucket 2)</i>	- 1,304	- 30,947
<i>amounts due from clients – (Bucket 3) with no indications of impairment</i>	- 504	- 9,586
<i>amounts due from clients – (Bucket 3) with indications of impairment</i>	-	- 1,578
<b>Total impairment losses</b>	<b>- 14,262</b>	<b>- 42,111</b>
<b>Total amounts due from clients measured at amortised cost (net)</b>	<b>996,973</b>	<b>1,381,346</b>
<b>Total amounts due from WIND FARM clients</b>	<b>996,973</b>	<b>1,381,346</b>

As at December 31st 2021, the share of the wind farm portfolio in the Bank's total (gross) institutional loans measured at amortised cost was 10.8%, representing 7.8% of the total lending portfolio; in absolute terms, the wind farm portfolio was PLN 1,011.2 million.

As at December 31st 2021, the provision coverage ratio for Bucket 3 assets in the institutional lending segment was 52.5%, including 3.9% in the wind farm portfolio.

The composition of the wind farm portfolio in 2021 was impacted by the full repayment of two clients' exposures and an improvement in the overall quality of the loan portfolio due to improved financial condition of clients and timely debt service by most of them. In view of the good prospects for the industry, changes were made to the receivables classification algorithm allowing the classification of wind farm exposures to Bucket 1. As at the end of 2021, the share of Bucket 3 exposures in the wind farm portfolio was 1.27%.

## 8.1.4. Debt securities

### Securities by rating assigned to issuers

December 31st 2021	State Treasury	NBP	Banks	Public finance	Other financial institutions	Total
1	-	-	-	-	49,787	49,787
6	2,840,160	-	142,882	-	-	2,983,042
7	-	-	522,753	-	-	522,753
8	-	-	-	-	135,233	135,233
none	-	2,899,014	-	91,056	346,763	3,336,833
<b>Total</b>	<b>2,840,160</b>	<b>2,899,014</b>	<b>665,635</b>	<b>91,056</b>	<b>531,783</b>	<b>7,027,648</b>

December 31st 2020	State Treasury	NBP	Banks	Public finance	Other financial institutions	Total
1	-	-	-	-	49,654	49,654
6	3,584,451	-	249,650	-	-	3,834,101
7	-	-	26,488	-	-	26,488
8	-	-	558,741	-	184,862	743,603
none	-	2,179,952	-	147,739	304,397	2,632,088
<b>Total</b>	<b>3,584,451</b>	<b>2,179,952</b>	<b>834,879</b>	<b>147,739</b>	<b>538,913</b>	<b>7,285,934</b>

The tables present a unified rating scale, as specified below. If an issuer is rated by more than one agency, the highest rating is presented.

For municipal bonds for which there is no active market, internal ratings are assigned, in one of the following categories:

<b>5</b>	Very good credit quality
<b>Ratings 6-7</b>	Good credit quality
<b>8-9</b>	Satisfactory credit quality
<b>10</b>	Average and poor credit quality

Risk classes for issuers of municipal bonds serviced by the Bank are assigned in accordance with the credit rating methodology for local government units applied by the Bank .

Public finance		
Internal rating	December 31st 2021	December 31st 2020
5	9,642	6,586
6	3,450	12,299
7	68,848	93,902
8	9,116	21,363
9	-	5,662
10	-	7,927
<b>Total</b>	<b>91,056</b>	<b>147,739</b>



## 8.1.5. Concentration of exposures to industries and geographical markets, with assessment of the concentration risk

As at the 31st of December 2021, the 'Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems' and 'Real estate activities' sectors had significant shares in the lending portfolio of the Bank of 10.9% and 11.8%, respectively.

### Exposure by industry

Industry	Credit risk exposure	December 31st 2021 % share in total
Real estate activities	1,532,976	11.8%
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,414,553	10.9%
Wholesale trade, except trade in motor vehicles	1,251,269	9.7%
Hospitality	574,772	4.4%
Public administration and defence; compulsory social security	480,915	3.7%
Construction of buildings	435,589	3.4%
Sports, entertainment and recreational activities	347,042	2.7%
Activities of head offices, management consultancy activities	234,426	1.8%
Financial services, except insurance and pension funds	227,188	1.8%
Manufacture of food products	215,072	1.7%
Manufacture of chemicals and chemical products	198,612	1.5%
Crop and animal production, hunting and related service activities	166,900	1.3%
Retail trade, except retail trade in motor vehicles	164,648	1.3%
Manufacture of fabricated metal products, except machinery and equipment	157,465	1.2%
Other sectors, including:	5,543,922	42.8%
<i>retail clients</i>	3,591,392	27.7%
<b>Total gross amounts due from clients</b>	<b>12,945,349</b>	<b>100.0%</b>
Impairment losses	- 1,108,517	
Security deposits	32,768	
Other amounts due from clients	2,638	
<b>Total net amounts due from clients</b>	<b>11,872,238</b>	

Industry	Credit risk exposure	December 31st 2020 % share in total
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,791,432	13.7%
Real estate activities	1,528,906	11.7%
Wholesale trade, except trade in motor vehicles	892,147	6.8%
Construction of buildings	766,593	5.9%
Public administration and defence; compulsory social security	629,971	4.8%
Hospitality	534,683	4.1%
Sports, entertainment and recreational activities	336,853	2.6%
Manufacture of chemicals and chemical products	259,420	2.0%
Manufacture of food products	234,262	1.8%
Manufacture of fabricated metal products, except machinery and equipment	218,168	1.7%
Financial services, except insurance and pension funds	132,240	1.0%
Other sectors, including:	5,728,999	43.9%
<i>retail clients</i>	3,798,784	29.1%
<b>Total gross amounts due from clients</b>	<b>13,053,674</b>	<b>100.0%</b>
Impairment losses	- 1,196,124	
Security deposits	31,704	
Other amounts due from clients	2,599	
<b>Total net amounts due from clients</b>	<b>11,891,853</b>	

## 8.1.6. Concentration of exposure to particular entities and groups

As at December 31st 2021, the Bank had nine individual exposures equal to or exceeding 10% of common equity where the borrower was a single entity or a group of entities linked through equity or otherwise, with the total amount of such exposures at PLN 1,985,791 thousand, or 116.2% of the Bank's eligible capital.

**The largest exposures to a single entity or a group of entities linked through equity or otherwise are presented below.**

No.	Exposure*\December 31st 2021
1	321,947
2	253,182
3	238,160
4	211,514
5	211,398
6	209,537
7	184,763
8	180,082
9	175,208
<b>Total</b>	<b>1,985,791</b>

No.	Exposure*\December 31st 2020
1	285,398
2	271,207
3	257,230
4	250,778
5	221,947
6	220,081
7	215,456
8	211,935
<b>Total</b>	<b>1,934,032</b>

\*\ Exposure to an entity includes: gross credit exposures, contingent liabilities (i.e., open credit lines and guarantees), debt securities issued by the entity and FX Spot, FX Forward and FX Swap transactions.

## Ten largest client exposures, with risks assessment

December 31st 2021						
No.	Exposure	On-balance-sheet exposures*\	Credit facilities – principal	Securities	Off-balance sheet exposures**\	Balance-sheet equivalent of derivative transactions
1	238,160	238,160	241,256	-	-	-
2	226,066	160,954	161,629	-	65,112	-
3	223,822	7,120	13,966	-	200,084	16,617
4	211,398	162,574	164,400	-	48,824	-
5	168,187	146,443	147,255	-	21,745	-
6	167,011	130,090	130,276	-	35,160	1,761
7	156,044	155,952	157,028	-	92	-
8	150,371	150,371	151,581	-	-	-
9	145,217	139,221	139,491	-	-	5,995
10	142,882	-	-	142,882	-	-
December 31st 2020						
No.	Exposure	On-balance-sheet exposures*\	Credit facilities – principal	Securities	Off-balance sheet exposures**\	Balance-sheet equivalent of derivative transactions
1	271,207	271,207	272,944	-	-	-
2	250,778	250,474	253,631	-	-	304
3	249,650	-	-	249,650	-	-
4	211,935	154,046	156,009	-	57,889	-
5	207,290	2,703	-	-	208,359	1,634
6	187,385	158,735	159,491	-	28,650	-
7	174,808	150,950	151,983	-	23,858	-
8	166,492	166,492	167,968	-	-	-
9	163,394	159,793	161,523	-	-	3,601
10	152,542	147,969	148,043	-	-	4,573

\* On-balance-sheet credit exposures include principal, interest, outstanding fees, discount and other amounts due.

\*\* Off-balance-sheet exposures include credit lines, guarantees, open import letters of credit, accepted bills of exchange, confirmed letters of credit and other commitments.

## 8.1.7. Maximum exposure to credit risk

The credit risk exposure under particular categories of financial assets is presented below.

Item	December 31st 2021		
	Gross carrying amount	Impairment losses	Maximum credit risk exposure
<b>Amounts due from other banks</b>	<b>391,021</b>	<b>- 569</b>	<b>390,452</b>
<b>Financial assets held for trading</b>	<b>119,310</b>	<b>-</b>	<b>119,310</b>
<i>derivative financial instruments</i>	115,110	-	115,110
<i>debt securities</i>	4,200	-	4,200
<b>Investment securities</b>	<b>7,109,095</b>	<b>- 164</b>	<b>7,108,931</b>
<i>equity securities measured at fair value through other comprehensive income</i>	85,483	-	85,483
<i>debt securities measured at fair value through other comprehensive income</i>	5,311,853	-	5,311,853
<i>debt securities measured at amortised cost</i>	1,582,530	- 164	1,582,366
<i>debt securities measured at fair value through profit or loss</i>	129,229	-	129,229
<b>Amounts due from clients</b>	<b>12,980,798</b>	<b>- 1,108,560</b>	<b>11,872,238</b>
Measured at amortised cost	12,931,238	- 1,108,517	11,822,721
<i>from institutional clients</i>	9,340,497	- 792,418	8,548,079
<i>from retail clients</i>	3,590,741	- 316,099	3,274,642
Measured at fair value through profit or loss	14,111	-	14,111
<i>from institutional clients</i>	13,460	-	13,460
<i>from retail clients</i>	651	-	651
Security deposits	32,811	- 43	32,768
Other amounts due from clients	2,638	-	2,638
<b>Other financial assets*\</b>	<b>27,714</b>	<b>- 4,601</b>	<b>23,113</b>

\*\ Includes mainly cash surplus and amounts due from transactions in financial instruments.

Item	December 31st 2020		
	Gross carrying amount	Impairment losses	Maximum credit risk exposure
<b>Amounts due from other banks</b>	<b>142,958</b>	<b>-943</b>	<b>142,015</b>
<b>Financial assets held for trading</b>	<b>79,827</b>	<b>-</b>	<b>79,827</b>
<i>debt securities</i>	79,827	-	79,827
<b>Investment securities</b>	<b>7,371,560</b>	<b>- 146</b>	<b>7,371,414</b>
<i>equity securities measured at fair value through other comprehensive income</i>	85,480	-	85,480
<i>debt securities measured at fair value through other comprehensive income</i>	5,597,061	-	5,597,061
<i>debt securities measured at amortised cost</i>	1,535,385	-146	1,535,239
<i>debt securities measured at fair value through profit or loss</i>	153,634	-	153,634
<b>Amounts due from clients</b>	<b>13,087,979</b>	<b>-1,196,126</b>	<b>11,891,853</b>
Measured at amortised cost	13,059,866	-1,196,126	11,863,740
<i>from institutional clients</i>	9,262,274	-859,557	8,402,717
<i>from retail clients</i>	3,797,592	-336,569	3,461,023
Measured at fair value through profit or loss	25,514	-	25,514
<i>from institutional clients</i>	24,322	-	24,322
<i>from retail clients</i>	1,192	-	1,192
Other amounts due from clients	2,599	-	2,599
<b>Other financial assets*\</b>	<b>24,595</b>	<b>-7,141</b>	<b>17,454</b>

\*\ Includes mainly cash surplus and amounts due from transactions in financial instruments.

## Credit risk exposures by category of contingent liabilities

Item	Maximum credit risk exposure	
	December 31st 2021	December 31st 2020
Contingent financial liabilities, including:	2,920,453	2,583,937
open lines of credit, including:	2,899,502	2,558,517
<i>revocable</i>	2,443,944	2,223,974
<i>irrevocable</i>	455,558	334,543
open import letters of credit	20,951	20,250
loan commitments, including:	-	5,170
<i>irrevocable</i>	-	5,170
Guarantees and sureties	450,033	372,847
Foreign exchange and interest rate transactions*	4,930,001	6,585,869

\*\ In 2021, the items included:

- foreign exchange and currency derivative transactions of PLN 940,707 thousand
- interest rate derivative transactions of PLN 3,731,294 thousand
- interest rate swap transactions of PLN 258,000 thousand

\*\ In 2020, the items included:

- foreign exchange and currency derivative transactions of PLN 1,097,009 thousand
- interest rate derivative transactions of PLN 5,230,860 thousand
- interest rate swap transactions of PLN 258,000 thousand

In accordance with the procedures in place at the Bank, contingent liabilities are subject to the same collateral and monitoring requirements as on-balance-sheet transactions.

The frequency of monitoring institutional clients (corporates) depends mainly on the size of credit exposure and the economic and financial standing of the client (rating).

Monitoring of institutional clients includes verification of:

1. rating of the client (including verification against selected external databases),
2. rating of the client's group,
3. assessment of the transaction (monitoring of collateral, contract terms (covenants) and project financed/co-financed by the Bank).

The frequency and scope of monitoring of institutional clients (micro-enterprises, housing communities) are dependent on the amount of exposure to the particular client.

Monitoring of micro-enterprises, housing communities includes:

1. monitoring of events subject to monitoring,
2. monitoring the economic and financial standing.

In the case of micro-enterprises, client verification against selected external databases is also performed.

## 8.1.8. Forbearance practices

The forbearance status is assigned to exposures where there has been a change in the contractual terms of the loan agreement, amounts due or investment measured at amortised cost if:

1. it results from the debtor's or the issuer's financial distress, or
2. where failure to amend the contractual terms would result in the exposure becoming non-performing, which would not have occurred had the debtor or the issuer not been in financial distress.

In particular, the following are considered forbearance facilities provided to clients:

1. payment holidays,
2. partial reduction of principal and / or partial waiver of incidental dues,
3. extension of the facility term,
4. reduced interest rate,
5. acceptance of non-performance of the contractual terms by the borrower the while the borrower fails to deliver financial projections,
6. the Bank's consent to sale or repossession of the collateral to repay the liability,
7. capitalisation of interest,
8. change of the debtor or the debt being taken over or acceded to by third parties.

If a forbearance agreement is properly performed, the debt becomes a performing exposure.

Restructuring is an indication of impairment.

For individually significant exposures the conclusion of a forbearance agreement due the debtor being in financial distress, the exposure must be tested for impairment to determine whether an impairment loss should be recognised.

For individually non-significant exposures the conclusion of a forbearance agreement due the debtor being in financial distress, an impairment loss must be recognised for the exposure.

Reversal of an impairment loss (i.e., reclassification to a healthy portfolio) is possible after the indicator of impairment ceased to exist and a 12-month quarantine period has elapsed. Restructured transactions for which the evidence of impairment ceased to exist, the quarantine period in which the evidence of impairment was not identified has passed, and in relation to which no impairment is recognised are allocated to Bucket 2. For such exposures, expected losses are recognised for the remaining life of the exposure.

Restructuring agreements are monitored on an ongoing basis for compliance with the contractual terms.

An exposure ceases to be classified as forborne (the forbearance status is removed) when all of the following conditions are met:

1. a loan agreement is considered a non-risk where the exposure was reclassified from the at-risk category, after assessment of the debtor's financial standing, which has confirmed sustainable improvement of the debtor's financial condition,
2. at least 24 months (trial period) have elapsed from the date when the exposure was considered as not being at risk, and during at least half of the trial period the debtor made regular payments of principal and interest, with delays not exceeding 30 days,
3. at the end of the trial period, none of the exposures to the debtor is past due for more than 30 days.

The accounting policies for forborne financial assets do not differ from those applied to other assets of the Bank. The Bank measures forborne facilities and amounts due at amortised cost, using the effective interest rate method. Where the terms of a loan, an amount due or investment measured at amortised cost are renegotiated due to financial distress of the debtor or the issuer, such exposure is measured using the original effective interest rate determined prior to the provision of any forbearance facilities.

Below is presented the credit risk exposure to of individual forborne transactions (with respect to which forbearance facilities have been provided):



December 31st 2021	Impaired receivables			Unimpaired receivables		
	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure
<b>Total amounts due from clients</b>	<b>865,288</b>	<b>- 470,856</b>	<b>394,432</b>	<b>55,312</b>	<b>- 2,218</b>	<b>53,094</b>
Amounts due from retail clients, including:	136,625	- 92,043	44,582	15,252	- 1,060	14,192
<i>individually measured*</i>	66,991	- 34,487	32,504	-	-	-
Amounts due from institutional clients, including:	728,663	- 378,813	349,850	40,060	- 1,158	38,902
<i>individually measured*</i>	720,557	- 372,168	348,389	-	-	-

December 31st 2020	Impaired receivables			Unimpaired receivables		
	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure
<b>Total amounts due from clients</b>	<b>676,101</b>	<b>-419,801</b>	<b>256,300</b>	<b>89,461</b>	<b>-3,364</b>	<b>86,097</b>
Amounts due from retail clients, including:	171,682	-114,448	57,234	21,660	-1,607	20,053
<i>individually measured*</i>	73,387	-37,024	36,363	-	-	-
Amounts due from institutional clients, including:	504,419	-305,353	199,066	67,801	-1,757	66,044
<i>individually measured*</i>	493,661	- 296,334	197,327	-	-	-

\*\ Amounts due from clients with indication of impairment but with no impairment identified given the estimated cash flows are measured using the group method.

## 8.2. Financial risk in the bank book and the trading book, and risk limits

The Bank's financial risk includes:

1. liquidity risk,
2. market risk, including:
  - a. interest rate risk (in the banking book and the trading book);
  - b. currency risk (primarily in the trading book; the banking book's currency risk is transferred to the trading book).

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

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

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

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

In line with the Bank'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 maintains open positions within the applicable risk limits.

The purpose of banking risk management by the Bank is to maintain risk 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 Bank's operations, including ensuring the Bank'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 Bank 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 Bank. In 2021, the main objectives, principles and organisation of the financial risk management process at the Bank did not change.

The level and profile of financial risk is monitored on a regular basis by the Financial Risk Department (2nd line of defence) and reported to: the Supervisory Board, the Risk Committee (at the Supervisory Board), the Management Board, the Assets and Liabilities Committee (the ALCO Committee) and the Liquidity and Market Risk ALCO Committee.

## 8.2.1. Liquidity risk

The purpose of liquidity management by the Bank is to maintain the Bank's ability to finance assets and pay liabilities in a timely manner and to maintain a sustainable structure of assets and liabilities, which ensures a safe liquidity profile in specific 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 ALCO Committee (supported by the ALCO LRMC Committee).

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. the forecast of LCR, NSFR and liquid assets.

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.

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 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 31 December 2021, these measures were as follows:

Metric	December 31st 2021	December 31st 2020
LCR	144%	158%
M3	47.78	54.72
M4	1.40	1.41
NSFR	128%	107%

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.

The stress tests performed in 2021, as in 2020, show that the Bank has a stable liquidity position and its liquid assets (excess liquidity) allow it to survive the assumed stress scenarios in which the Bank assumes a survival over a certain period of time.

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

The tables below present the adjusted liquidity gap (carrying amounts):

December 31st 2021	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Liquidity gap ratio	2.87	1.66	1.22	0.96	1.01	1.00	
<b>Total assets</b>	<b>5,648,239</b>	<b>469,771</b>	<b>612,861</b>	<b>981,578</b>	<b>7,136,798</b>	<b>5,600,721</b>	<b>20,449,968</b>
<i>of which amounts due from clients</i>	122,221	322,798	434,057	923,782	5,733,857	4,335,523	11,872,238
<b>Total liabilities</b>	<b>1,969,377</b>	<b>1,717,094</b>	<b>1,850,119</b>	<b>2,462,523</b>	<b>6,716,728</b>	<b>5,734,127</b>	<b>20,449,968</b>
<i>of which amounts due to clients</i>	1,590,766	1,633,144	1,757,680	2,288,228	5,907,102	3,835,226	17,012,146
Gap	3,678,862	-1,247,323	-1,237,258	-1,480,945	420,070	-133,406	-
Accumulated gap	3,678,862	2,431,539	1,194,281	-286,664	133,406	-	-

December 31st 2020	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Liquidity gap ratio	4.29	2.28	1.52	1.16	0.98	1.00	
<b>Total assets</b>	<b>5,634,189</b>	<b>503,103</b>	<b>472,036</b>	<b>1,068,571</b>	<b>6,340,990</b>	<b>6,279,973</b>	<b>20,298,862</b>
<i>of which amounts due from clients</i>	82,742	385,525	471,040	1,031,136	5,195,107	4,726,303	<b>11,891,853</b>
<b>Total liabilities</b>	<b>1,312,149</b>	<b>1,380,035</b>	<b>1,666,964</b>	<b>2,232,315</b>	<b>7,732,524</b>	<b>5,974,875</b>	<b>20,298,862</b>
<i>of which amounts due to clients</i>	960,904	1,221,598	1,404,513	2,126,290	6,790,400	4,050,072	<b>16,553,777</b>
Gap	4,322,040	-876,932	-1,194,928	-1,163,744	-1,391,534	305,098	-
Accumulated gap	4,322,040	3,445,108	2,250,180	1,086,436	-305,098	-	-

### Derivative instrument cash flows (gross settlements)

The table below presents the maturities of derivative instruments by contractual terms as at December 31st 2021 and December 31st 2020 (undiscounted amounts):

December 31st 2021	1M	1-3M	3-6M	6-12M	Over 1Y	Total
<b>Inflows, including:</b>	<b>375,771</b>	<b>331,071</b>	<b>167,638</b>	<b>119,689</b>	<b>215,179</b>	<b>1,209,348</b>
FX forward	64,664	143,333	117,052	65,075	-	390,124
FX Spot	110,792	-	-	-	-	110,792
FX Swap	196,416	183,354	39,407	20,614	-	439,791
IRS	3,899	4,384	11,179	34,000	215,179	268,641
<b>Outflows, including:</b>	<b>378,732</b>	<b>342,705</b>	<b>166,450</b>	<b>114,401</b>	<b>182,790</b>	<b>1,185,078</b>
FX forward	64,099	142,444	113,231	64,101	-	383,875
FX Spot	110,845	-	-	-	-	110,845
FX Swap	199,809	194,348	42,674	22,574	-	459,405
IRS	3,979	5,913	10,545	27,726	182,790	230,953

December 31st 2020	1M	1-3M	3-6M	6-12M	Over 1Y	Total
<b>Inflows, including:</b>	<b>663,217</b>	<b>113,790</b>	<b>155,329</b>	<b>140,614</b>	<b>154,801</b>	<b>1,227,751</b>
FX forward	94,734	19,658	20,345	51,098	33,118	218,953
FX Spot	186,468	-	-	-	-	186,468
FX Swap	375,620	88,476	129,386	65,664	32,442	691,588
IRS	6,395	5,656	5,598	23,852	89,241	130,742
<b>Outflows, including:</b>	<b>670,163</b>	<b>117,589</b>	<b>162,580</b>	<b>139,444</b>	<b>152,342</b>	<b>1,242,118</b>
FX forward	94,191	19,838	20,863	50,240	32,668	217,800
FX Spot	186,371	-	-	-	-	186,371
FX Swap	382,261	90,949	132,131	66,767	32,833	704,941
IRS	7,340	6,802	9,586	22,437	86,841	133,006



## 8.2.2. 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 unparallel movements in the shape of the yield curve,
6. customer option risk analysis, whose objective is to assess the impact of customer 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 are consistent with the EBA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading book activities.

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

Date	$\Delta$ NII		$\Delta$ EVE	
	-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
<b>Change</b>	<b>27,013</b>	<b>1,869</b>	<b>16,959</b>	<b>-4,143</b>

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 as late as 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 securities.

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

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

Date	$\Delta$ EVE in a given SOT scenario					
	parallel upward shift of the interest rate curve	parallel downward shift of the interest rate curve	steepener shock <sup>1</sup>	flattener shock <sup>2</sup>	short rates shock up <sup>3</sup>	short rates shock down <sup>3</sup>
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
<b>Change</b>	<b>21,392</b>	<b>-13,759</b>	<b>8,585</b>	<b>-316</b>	<b>5,654</b>	<b>2,527</b>

<sup>1</sup> sharper shock (decrease in short-term rates and increase in long-term rates),

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

<sup>3</sup> 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:

1. sensitivity of the net interest income (NII):

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

The Bank also conducts reverse tests:

1. for the EVE – tests of the impact of changes in market factors, the purpose of which is to show when the sensitivity of the EVE falls below 20% of equity,
2. for the NII:
  - tests to show when the 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  $\pm 200$  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 $\pm 200$ 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.

## Derivative financial instruments

The following tables set out the decomposition of derivatives into underlying instruments in order to present their sensitivity to movements of rate movements (notional amounts).

December 31st 2021	1M	1-3M	3-6M	6-12M	Over 1Y	Total
<b>Assets</b>						
FX forward	64,664	143,333	117,052	65,075	-	390,124
FX Spot	110,792	-	-	-	-	110,792
FX Swap	196,416	183,354	39,407	20,614	-	439,791
IRS	663,001	993,175	733,633	268,278	1,331,208	3,989,295
Total assets	1,034,873	1,319,862	890,092	353,967	1,331,208	4,930,002
<b>Equity and liabilities</b>						
FX forward	64,099	142,444	113,231	64,101	-	383,875
FX Spot	110,845	-	-	-	-	110,845
FX Swap	199,809	194,348	42,674	22,574	-	459,405
IRS	410,000	850,513	755,570	215,329	1,757,882	3,989,294
Total equity and liabilities	784,753	1,187,305	911,475	302,004	1,757,882	4,943,419
<b>Total</b>	<b>250,120</b>	<b>132,557</b>	<b>-21,383</b>	<b>51,963</b>	<b>-426,674</b>	

December 31st 2020	1M	1-3M	3-6M	6-12M	Over 1Y	Total
<b>Assets</b>						
FX forward	94,734	19,658	20,345	51,098	33,118	218,953
FX Spot	186,468	-	-	-	-	186,468
FX Swap	375,620	88,476	129,386	65,664	32,442	691,588
IRS	1,013,802	1,153,291	1,234,460	518,980	1,568,329	5,488,862
Total assets	1,670,624	1,261,425	1,384,191	635,742	1,633,889	6,585,871
<b>Equity and liabilities</b>						
FX forward	94,191	19,838	20,863	50,240	32,668	217,800
FX Spot	186,371	-	-	-	-	186,371
FX Swap	382,261	90,949	132,131	66,767	32,833	704,941
IRS	753,801	1,068,025	1,232,753	421,000	2,013,280	5,488,859
Total equity and liabilities	1,416,624	1,178,812	1,385,747	538,007	2,078,781	6,597,971
<b>Total</b>	<b>254,000</b>	<b>82,613</b>	<b>-1,556</b>	<b>97,735</b>	<b>-444,892</b>	

## 8.2.3. Currency risks

Currency risk is defined as the risk of the Bank incurring losses resulting from movements in foreign exchange rates. The risk is generated primarily in the trading book of the Bank.

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. 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.

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

### 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 and the impact of the stress test scenario – a 30% decline in the exchange rates of all currencies in relation to PLN – 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 – 30% increase/decrease in exchange rates as at
	mean	max	min	as at	
December 31st 2021	276	1,700	16	560	-4,556
December 31st 2020	230	966	8	259	-1,962

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

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

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. Formation on the utilisation of individual limits is regularly reported to the Bank's management.

Based on the analyses, the currency risk in the Bank was moderate during the reporting period.

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.



Open foreign exchange positions as at December 31st 2021 and December 31st 2020 are presented below.

### Currency risk (net carrying amounts)

December 31st 2021	PLN	EUR	USD	CHF	Other currenci	Total
<b>Assets</b>						
Cash and balances at central bank	322,949	36,976	1,176	267	196	361,564
Amounts due from banks	14,509	29,167	294,502	6,248	46,026	390,452
Financial assets held for trading, including:	119,150	160	-	-	-	119,310
<i>derivative instruments</i>	114,950	160	-	-	-	115,110
Derivative hedging instruments	9,121	-	-	-	-	9,121
Investment securities, including:	7,108,759	146	26	-	-	7,108,931
<i>equity securities measured at fair value through other comprehensive income</i>	85,311	146	26	-	-	85,483
<i>debt securities measured at fair value through other comprehensive income</i>	5,311,853	-	-	-	-	5,311,853
<i>debt securities measured at amortised cost</i>	1,582,366	-	-	-	-	1,582,366
<i>debt securities measured at fair value through profit or loss</i>	129,229	-	-	-	-	129,229
Amounts due from clients	9,372,349	1,589,247	138,307	774,332	3	11,872,238
Other assets*\\	586,238	667	122	837	488	588,352
<b>Total assets</b>	<b>17,531,075</b>	<b>1,656,363</b>	<b>434,133</b>	<b>781,68<sub>z</sub></b>	<b>46,713</b>	<b>20,449,968</b>
<b>Off-balance sheet items constituting foreign currency item</b>		<b>253,823</b>	<b>184,204</b>	<b>37,429</b>	<b>-</b>	<b>-</b>

\*\\ The item includes: intangible assets, property, plant and equipment, income tax assets and other assets

<b>Liabilities</b>						
Amounts due to central bank and other banks	11,388	275,826	-	133,175	-	420,389
Derivative financial instruments held for trading	93,723	156	-	-	-	93,879
Amounts due to clients	15,076,176	1,302,765	533,848	53,132	46,225	17,012,146
Subordinated liabilities	369,107	-	-	-	-	369,107
Provisions	34,023	36,613	5,172	368,78 <sub>6</sub>	-	444,594
Other liabilities	221,157	21,230	3,092	-	85	245,564
<b>Total liabilities</b>	<b>15,805,574</b>	<b>1,636,590</b>	<b>542,112</b>	<b>555,093</b>	<b>46,310</b>	<b>18,585,679</b>
<b>Off-balance sheet items constituting foreign currency item</b>		<b>274,185</b>	<b>86,264</b>	<b>293,594</b>	<b>-</b>	
<b>On-balance sheet item</b>		<b>19,773</b>	<b>-107,979</b>	<b>226,591</b>	<b>403</b>	
<b>Off-balance sheet item</b>		<b>-20,362</b>	<b>97,940</b>	<b>-256,165</b>	<b>-</b>	
<b>Bank's open currency position</b>		<b>-589</b>	<b>-10,039</b>	<b>-29,574</b>	<b>403</b>	

December 31st 2020	PLN	EUR	USD	CHF	Other currenc	Total
<b>Assets</b>						
Cash and balances at central bank	253,151	12,309	721	195	156	266,532
Amounts due from banks	50,858	62,902	13,296	1,446	13,513	142,015
Securities held for trading	79,509	295	23	-	-	79,827
Derivative financial instruments	79,509	295	23	-	-	79,827
Amounts due from clients	7,371,414	-	-	-	-	7,371,414
Investment securities, including:	85,480	-	-	-	-	85,480
<i>debt securities measured at fair value through other comprehensive income</i>	5,597,061	-	-	-	-	5,597,061
<i>debt securities measured at amortised cost</i>	1,535,239	-	-	-	-	1,535,239
<i>equity securities measured at fair value through other comprehensive income</i>	153,634	-	-	-	-	153,634
Investments in subsidiaries	9,085,130	1,805,130	128,972	872,593	28	11,891,853
Other assets*\	544,684	1,264	225	870	178	547,221
<b>Total assets</b>	<b>17,384,746</b>	<b>1,881,900</b>	<b>143,237</b>	<b>875,104</b>	<b>13,875</b>	<b>20,298,862</b>
<b>Off-balance sheet items constituting foreign currency item</b>		<b>207,463</b>	<b>144,938</b>	<b>20,147</b>	<b>24,653</b>	

\*\ The item includes: intangible assets, property, plant and equipment, income tax assets and other assets

<b>Liabilities</b>						
Amounts due to central bank and other banks	822	240,999	677	490,245	-	732,743
Amounts due to clients	97,254	156	-	-	-	97,410
Derivative financial instruments	24,497	-	-	-	-	24,497
Derivative hedging instruments	14,872,717	1,398,136	184,354	61,110	37,460	16,553,777
Subordinated liabilities	368,996	-	-	-	-	368,996
Provisions	411,720	2,076	1,274	-	-	415,070
Other liabilities	186,216	7,780	1,890	5	72	195,963
<b>Total liabilities</b>	<b>15,962,222</b>	<b>1,649,147</b>	<b>188,195</b>	<b>551,360</b>	<b>37,532</b>	<b>18,388,456</b>
<b>Off-balance sheet items constituting foreign currency item</b>		<b>448,857</b>	<b>101,462</b>	<b>363,034</b>	<b>714</b>	
<b>On-balance sheet item</b>		<b>232,753</b>	<b>-44,958</b>	<b>323,744</b>	<b>-23,657</b>	
<b>Off-balance sheet item</b>		<b>-241,394</b>	<b>43,476</b>	<b>-342,887</b>	<b>23,939</b>	
<b>Bank's open currency position</b>		<b>-8,641</b>	<b>-1,482</b>	<b>-19,143</b>	<b>282</b>	

The off-balance-sheet foreign exchange position results in particular from FX swap transactions that are used by the Bank to cover the liquidity mismatch in foreign currencies.

## 8.3. Capital management

For capital adequacy purposes, the Bank applies transitional arrangements to mitigate the impact of the first-time application of IFRS 9 on own funds, pursuant to Article 1(9) of Regulation (EU) 2017/2395 of the European Parliament and the Council dated December 12th 2017 (Regulation) amending Regulation (EU) No 575/2013. The Bank also made a decision not to apply the provisions of Art.1.4 of Regulation (EU) 2017/2395.

Taking into account the impact of IFRS 9 both with and without the transitional arrangements, the Bank met the applicable capital standards as at December 31st 2021.

Following the decision to apply the transitional provisions, as of February 1st 2018 the Bank discloses its own funds, capital ratios and leverage ratio, both with and without applying the transitional arrangements under Article 473a of Regulation (EU) No 575/2013.

The Bank's capital, risk-weighted assets, capital ratios, leverage ratio and internal capital were as follows:

Item	December 31st 2021	December 31st 2020
<b>AVAILABLE CAPITAL</b>		
Common equity Tier 1 capital	1,710,685	1,858,426
Common equity Tier 1 capital – without IFRS 9 transitional provisions	1,640,114	1,759,626
Tier 1 capital	1,710,685	1,858,426
Tier 1 capital – without IFRS 9 transitional provisions	1,640,114	1,759,626
Own funds	1,893,245	2,114,009
Own funds – without IFRS 9 transitional provisions	1,822,673	2,015,209
<b>RISK-WEIGHTED ASSETS</b>		
Total amount of risk-weighted assets	12,785,759	14,111,218
<i>Credit risk and counterparty credit risk</i>	11,851,982	13,190,506
<i>Operational risk</i>	840,708	875,594
<i>Market risk</i>	70,653	36,989
<i>CVA risk</i>	22,416	8,130
Total amount of risk-weighted assets – without IFRS 9 transitional provisions	12,733,548	14,013,272
<b>CAPITAL RATIOS</b>		
Common equity Tier 1 capital ratio	13.38	13.17
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	12.88	12.56
Tier 1 capital ratio	13.38	13.17
Tier 1 capital ratio – without IFRS 9 transitional provisions	12.88	12.56
Total capital ratio	14.81	14.98
Total capital ratio – without IFRS 9 transitional provisions	14.31	14.38
<b>LEVERAGE RATIO</b>		
Exposure value	22,416,448	22,001,072
Leverage ratio	7.6	8.4
Leverage Ratio – without IFRS 9 transitional provisions	7.3	8.0
<b>INTERNAL CAPITAL</b>		
Internal capital	1,458,499	1,693,855

The amount of own funds and capital requirements were determined in accordance with Regulation (EU) No 575/2013 of June 26th 2013 on prudential requirements for credit institutions and investment firms, hereinafter referred to as CRR.

In order to mitigate the risk of a decrease in capital ratios, the Bank monitors the scale and structure of the Bank's business and factors that may adversely affect the level of the Bank's equity.

On a quarterly basis, the Bank estimates internal capital to cover:

**1. Pillar 1 risks:**

- for credit risk and counterparty credit risk – on the basis of the regulatory requirement taking into account an additional mark up for non-performing exposures (NPE) / non-performing loans (NPL),
- for specific types of risk within the market risk, including CVA risk and operational risk – based on the regulatory requirements,

**2. Pillar 2 risks:**

- for other permanently significant risks and risks for which assessment of significance is performed periodically, internal capital is determined using methodologies specified in the internal regulations of the Bank. These regulations were the basis for monitoring, assessment of significance and determination of internal capital for particular risks incurred by the Bank.

In accordance with Article 92 of the CRR, the Bank is required to maintain the total capital ratio at a minimum of 8%. The Tier 1 capital ratio and Common equity Tier 1 capital ratio should amount at least to 6.0% and 4.5%, respectively.

According to the CRR Resolution, and the Act of August 5th 2015 on macro-prudential oversight of the financial system and crisis management in the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. As of January 1st 2019, the capital conservation buffer is 2.5 bps, and the countercyclical buffer is 0 bps. The Bank is not required to maintain the buffer defined for other systemically important institution. The systemic risk buffer was released by decision of the Minister of Finance dated March 18th 2020.

On November 17th 2021, the Polish Financial Supervision Authority recommended that the Bank maintains own funds to cover additional capital requirements to hedge against the risk arising from foreign currency mortgage credits and household loans at the level of 0.66 p.p. above the TCR ratio referred to in Article 92 (1) letter c) of the CRR Regulation, which should be composed of, at least, 75% of the Tier I capital (which corresponds to the capital requirement at the level of 0.50 p.p. above the value of Tier I capital which is referred to in Article 92 (1) letter b) of the CRR Regulation) and of at least 56% of the common equity Tier I capital (which corresponds to the capital requirement at the level of 0.37 p.p. above the common equity Tier I capital ratio referred to in Article 92 (1) letter a) of the CRR Regulation).

As a result, as of December 31st 2021 the minimum capital ratios recommended by the Authority are 9.00% 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.

## 8.4. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk, taking into account operational risk events characterised by low frequency of occurrence but high losses; reputational and strategic risks are not part of operational risk.

The objective of operational risk management is to ensure safe and sustainable operations and development of the Bank, by, among other things, mitigating and maintaining operational risk at an acceptable level within the operational risk limits adopted by the Bank, and by undertaking adequate actions in response to operational risk events.

The Bank applies an operational risk management system under which the responsibility for the day-to-day operational risk management rests with all the Bank's employees, and in particular with the heads of organizational units/offices of the Head Office, business centres and branches of the Bank – in accordance with respective responsibilities and tasks.

The Bank operates an organisational unit of the Head Office for operational risk management, which represents the second level of operational risk management and is responsible, among other things, for organising the operational risk management system at the Bank.

The Bank gathers information on significant operational risk events in the operational risk event database maintained as a dedicated IT application. This information is used to:

1. monitor the level of operational risk on an ongoing basis,
2. monitor activities of organisational units related to the operational risk events,
3. measure or estimate losses arising from operational risk,
4. generate reports on operational risk events, including reports for external institutions.

The Bank sets basic limits for operational risk, including in particular tolerance and appetite limits across the Bank, as well as a target operational risk profile. The degree of utilisation of the tolerance limits and appetite for operational risk is controlled by periodic monitoring of the amount of losses incurred due to operational risk events.

Operational risk is measured using quantitative, qualitative and mixed methods, including, but not limited to:

1. calculation of the capital requirement for operational risk in accordance with the standardised approach,
2. estimation and determination of internal capital for operational risk; as at December 31st 2021, the amount of internal capital was equal to the amount of capital requirements for operational risk,
3. calculation and monitoring of key risk indicators (KRI),
4. reviews of operational risk (self-assessment of potential operational risk),
5. stress tests.

At the Bank, stress tests for operational risk are carried out using three methods: sensitivity analysis, reverse analysis, and scenario analysis. Stress tests are conducted once a year. As a result of the stress tests carried out so far, the amount of losses assumed in the scenarios, compared with the amount of available capital in the form of a tolerance limit and capital requirement for operational risk, confirmed – under most of the scenarios – the ability of the Bank to absorb operational risk losses through its operational risk capital requirement and through the operational risk tolerance limit. For scenarios where the hypothetical level of losses exceeds the level of capital maintained for operational risk, the Bank takes steps to mitigate the risks of such losses materialising.

As part of its systemic operational risk management, the Bank draws up internal regulations, with the division of powers embedded in these regulations, which prevents the assignment of responsibilities that could lead to conflicts of interest, and mechanisms to mitigate operational risk. In order to reduce its exposure to operational risk, the Bank uses the following instruments (methods, techniques and tools):

1. organisation of work to mitigate the occurrence of operational risk by, among other things, separating executive and control functions, setting decision and transaction limits, and managing access rights to premises and systems to reduce the possibility of unauthorised actions,
2. the HR policy,
3. internal control functions,
4. strategic internal limits for operational risk, i.e., tolerance and appetite limits,
5. periodic reviews of operational risk based on the self-assessment process,
6. risk maps built to identify the sources of potential threats and assessment of related risk levels,
7. operational risk stress testing,
8. threshold values of key risk indicators (KRI),
9. clauses in contracts with third parties that mitigate operational risk,
10. insurance of bank property with specialized firms,
11. documenting the methodological, process, organisational and IT solutions applied by the Bank,
12. automation of activities with the use of IT solutions and increasing the quality of operations through the use of specialised software,
13. continuity and contingency plans developed for the critical business processes of the Bank,
14. analysis of the adequacy of the calculated capital requirements for operational risk to the actual operational risk incurred by the Bank,
15. internal training for the Bank's employees aimed at raising their awareness and understanding of the role, impact and ways of conduct with respect to operational risk.

The level and profile of operational risk, the utilisation of operational risk limits and the amount of losses arising from operational risk events are regularly monitored at the Head Office and reported to: the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board and the Operational Risk Committee.

In 2021, the COVID-19 pandemic did not result in a significant overall increase in operational risk incidents. There were COVID-19-induced incidents related to interruptions in the provision of services to branch network clients. The operational risk incidents related to the COVID-19 pandemic did not result in any losses.

## 8.5. Compliance risk

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

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

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

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

The Bank has a separate, independent compliance function 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:

1. identification of compliance risks, particularly at the stage of developing new products and internal regulations,
2. assessment of compliance risk,
3. control and monitoring of compliance risk,
4. 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:

1. implementing and monitoring compliance with laws and market standards,
2. implementing and monitoring compliance with ethical standards,
3. accepting/giving benefits or gifts,
4. advertising and marketing activities,
5. offering products, including in particular implementation of new products,
6. handling client complaints,
7. preventing and managing conflicts of interest,
8. preventing money laundering and terrorist financing (AML),
9. 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.

## 8.6. Model risk

Model risk is defined by the Bank in accordance with regulatory requirements as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models (Art. 3.1, Section 11, CRD IV).

The process of identifying, assessing and monitoring model risk includes areas related to:

1. the risk of using incorrect and incomplete data,
2. the risk of erroneous assumptions of models, which are inadequate to the estimated process,
3. the methodological risks resulting from the use of inappropriate estimation methodologies and techniques in the model construction process,
4. the risk of insufficient monitoring, validation and update of models, also the risk of applying an incorrectly implemented but correct model.

Due to the extensive use of models in its business, including in the credit process, the capital management processes, or the credit risk and market risk management processes, the Bank considers the model risk as consistently significant. Internal capital is estimated and established for model risk.

The Bank manages model risk in accordance with internal regulations, including the internal capital estimation and allocation rules, the model risk management policy, the model risk management methodology and the significant model validation methodologies. The policy defines the rules governing the processes related to estimation, verification and management of the level of model risk and regulates matters related to the construction, verification, implementation, validation and monitoring of models used at the Bank. The model risk management is coordinated by the operational risk management unit and an independent model validation unit, both at the Head Office of the Bank, which report directly to Vice President of the Management Board in charge of risk management functions.

In order to quickly and accurately identify model risk, the Bank has in place a standardized, comprehensive model risk management process, which includes:

1. identification of new models,
2. model life cycle,
3. the principles of assessing the materiality of the Bank's models,
4. the principles of operation of model logs, which contain information regarding the models, sets of their parameters, changes to the models, their updates and reviews. The logs provide a baseline of information on model materiality, model monitoring and model validation, and risk levels for material models,
5. the standards and principles of monitoring and reporting of model risk – material models are monitored on a quarterly basis, and non-material models – annually. In exceptional cases, due in particular to limited availability of the data or significant operational intensity of monitoring, models may be monitored less frequently (but not less frequently than once year for material models and not less frequently than once every three for non-material



- models). Model risk is reported on a quarterly basis. Implementation of the Policy is assessed on an annual basis and the assessment results are approved by the Supervisory Board,
6. the principles of model validation – models are validated by an independent Model Validation Office, at least once a year for material models. Certain types of material models may be validated less frequently than once year (but not less frequently than once every three years), if such frequency results directly from the nature of the model operation. Other models are validated on an ad-hoc basis when ordered by the Management Board or a relevant Committee, based on external or internal recommendations, or at the request of the model owner.

As at December 31st 2021, the Bank operated a total of 20 models, including seven material models and 13 immaterial models.

Risks of the Bank's material models are assessed on a regular basis, in accordance with the standards adopted in internal regulations, taking into account the calculation of internal capital related to hedging the Bank against the model risk. Reporting on the status of model management and validation includes model risk assessment, risk tolerance level and the associated level of capital allocated to the model risk. Reports on validation for material models are presented and approved during meetings of the relevant Committees appointed by the Management Board.

As at December 31st 2021, the aggregate risk of material models was moderate. None of the material models generated risks higher than moderate. The aggregate model risk fell within the tolerance level determined and approved by the Supervisory Board.

## 9. Net interest income

Item	January 1st 2021 December 31st 2021				January 1st 2020 December 31st 2020			
	Interest income		Income similar to interest income	Total	Interest income		Income similar to interest income	Total
	Financial assets measured at amortised cost	Assets measured at fair value through other comprehensive income	Financial assets mandatorily measured at fair value through profit or loss		Financial assets measured at amortised cost	Assets measured at fair value through other comprehensive income	Financial assets mandatorily measured at fair value through profit or loss	
Amounts due from banks and the central bank	6,184	-	-	6,184	979	-	-	979
Amounts due from institutional clients	254,894	-	705	255,599	307,084	-	1,182	308,266
Amounts due from retail clients	88,596	-	-	88,596	107,572	-	10	107,582
Non-trading investment debt securities	25,225	45,971	-	71,196	29,959	67,698	-	97,657
Financial instruments held for trading	-	-	3,322	3,322	-	-	1,796	1,796
<b>Total</b>	<b>374,899</b>	<b>45,971</b>	<b>4,027</b>	<b>424,897</b>	<b>445,594</b>	<b>67,698</b>	<b>2,988</b>	<b>516,280</b>

Item	January 1st – December 31st 2021			January 1st – December 31st 2020		
	Financial liabilities measured at amortised cost	Financial liabilities measured at fair value through profit or loss	Total	Financial liabilities measured at amortised cost	Financial liabilities measured at fair value through profit or loss	Total
Interest expense and similar charges on:						
Bank accounts and deposits from banks	890	-	890	178	-	178
Bank accounts and deposits from institutional clients	7,799	-	7,799	24,921	-	24,921
Bank accounts and deposits from retail clients	27,487	-	27,487	96,290	-	96,290
Borrowings from clients	159	-	159	462	-	462
JESSICA lending support funds	64	-	64	177	-	177
Financial instruments – own debt securities	12,152	-	12,152	15,100	-	15,100
Hedging transactions	-	6,433	6,433	-	7,700	7,700
Lease liabilities	3,950	-	3,950	3,543	-	3,543
Litigation and claims related to foreign currency mortgage loans	-	-	-	614	-	614
<b>Total</b>	<b>52,501</b>	<b>6,433</b>	<b>58,934</b>	<b>141,285</b>	<b>7,700</b>	<b>148,985</b>

## 10. Net fee and commission income

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
<b>Fee and commission income</b>		
Fees for maintaining client accounts, other domestic and international settlement transactions	39,585	34,965
Commission fees on credit facilities	37,758	31,531
Commission fees on guarantees and letters of credit	6,355	5,943
Other fees	5	2
<b>Total</b>	<b>83,703</b>	<b>72,441</b>
<b>Fee and commission expense</b>		
Payment card fees	7,199	6,151
Current account fees	1,675	1,351
ATM service charges	1,225	1,225
Fees on amounts due from clients	97	213
Other fees	598	805
<b>Total</b>	<b>10,794</b>	<b>9,745</b>

## 11. Dividend income

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Securities measured at fair value through other comprehensive income	6,527	6,205
<b>Total</b>	<b>6,527</b>	<b>6,205</b>

The amount of 2021 dividend includes dividends from:

1. Kemipol Sp. z o.o. of PLN 6,286 thousand (2020: PLN 5,526 thousand),
2. WODKAN Przedsiębiorstwo Wodociągów i Kanalizacji S.A. of PLN 241 thousand (2020: PLN 679 thousand).

## 12. Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Securities held for trading	- 1,985	991
Derivative financial instruments	19,814	13,989
Amounts due from clients	89	32
Securities measured at fair value through profit or loss and related derivative financial instruments	2,304	3,589
<b>Total</b>	<b>20,222</b>	<b>18,601</b>

## 13. Gain (loss) on investment securities

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Gain (loss) on sale of securities measured at fair value through other comprehensive income	197	4,239
<b>Total</b>	<b>197</b>	<b>4,239</b>

## 14. Gain (loss) on hedge accounting

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Gain (loss) on fair value measurement of fair value hedging transactions	33,669	- 10,463
Gain (loss) on measurement of hedged part of Treasury bonds covered by fair value hedge accounting	- 32,905	8,425
<b>Total</b>	<b>764</b>	<b>- 2,038</b>

## 15. Gain (loss) on foreign exchange transactions

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Realised gain (loss) on valuation transactions	17,173	18,883
Unrealised gain (loss) on valuation transactions	8,084	6,188
<b>Total</b>	<b>25,257</b>	<b>25,071</b>

## 16. Other income

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Reversal of provisions for liabilities, including:	5,818	5,481
<i>provisions for liabilities and claims</i>	466	2,138
<i>other provisions</i>	5,352	3,343
Reversal of impairment losses on receivables	247	10
Recoveries of prescribed, cancelled or uncollectible receivables	2,132	177
Proceeds from sale or retirement of property, plant and equipment	45	23
Reimbursement of debt collection costs	1,867	748
Revenue from sale of goods and provision of services	4,574	756
Adjustment of interest on cancelled deposits from previous years	341	907
Income from damages, penalties and fines	1	60
Other	1,943	1,307
<b>Total</b>	<b>16,968</b>	<b>9,469</b>

Due to the change in presentation described in Note 5.2 'Comparability with prior period data', the amount of released provisions for liabilities in the comparative data for 2020 is PLN 11 thousand less than the amount disclosed in the published financial statements for 2020 and stands at PLN 5,481 thousand (in the line item 'Other provisions' the amount is PLN 3,343 thousand and is PLN 11 thousand less than in the published financial statements for 2020).

## 17. Other expenses

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Retirement of property, plant and equipment and intangible assets	92	53
Donations	1,008	1,036
Recognised provisions for liabilities and claims, including:	629	7,014
<i>provision for refund of commission fees due to early loan repayment</i>	184	1,269
<i>provision for other liabilities and claims</i>	445	5,745
Impairment losses on receivables	-	61
Costs of debt collection	2,537	2,944
Adjustment to interest and commission fees on previous years' loans	20,014	1,873
Costs of maintenance and administration of own leased premises	3,184	119
Costs of compensation	139	472
Other	2,587	1,994

Total	30,190	15,566
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## 18. Effect of legal risk of mortgage loans denominated in foreign currencies

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Effect of legal risk of mortgage loans tied to currency exchange rates	- 20,783	- 353,010
<b>Total</b>	<b>- 20,783</b>	<b>- 353,010</b>

Clients' debt under mortgage loans tied to currency exchange rates	December 31st 2021	December 31st 2020
CHF	877,489	936,704
EUR	552,439	614,065
USD	36,781	38,655
<b>Total</b>	<b>1,466,709</b>	<b>1,589,424</b>

Impairment losses and legal risk provisions	December 31st 2021	December 31st 2020
Provisions:		
CHF	373,001	348,976
EUR	31,442	25,593
USD	3,703	1,841
	<b>408,146</b>	<b>376,410</b>
Impairment losses due to filing of debt cancellation lawsuit		
CHF	53,817	20,693
EUR	143	1,057
USD	290	496
	<b>54,250</b>	<b>22,246</b>
<b>Total provisions and impairment losses due to filing of debt cancellation lawsuit</b>	<b>462,396</b>	<b>398,656</b>

The Bank recognises provisions for legal risk as a liability in accordance with IAS 37 based on certain assumptions about cash outflows or decrease in amounts due from clients. The provision covers costs associated with the assumed scenarios of resolution of the issue of mortgage loans tied to foreign exchange rates, i.e.: reaching out-of-court settlements with clients or unfavourable court rulings.

The out-of-court settlements scenario is based on the assumption that existing loans denominated in or tied to a foreign currency would be converted into loans denominated in PLN. It is further proposed that any repaid

instalments of loans tied to foreign currencies would be settled as if the loans had been PLN-denominated products since the outset, i.e., based on repayment schedules with interest accruing at WIBOR rates plus margin. As a result of such conversion, the value of the existing portfolio of loans denominated in or tied to foreign currencies will decrease, which is reflected in the amount of the provision.

Agreements with customers may be concluded under the Compromise and Settlement Programme. For further information on the Compromise and Settlement Programme, see Note 3 'Compromise and Settlement Programme for residential mortgage-backed loans tied to foreign currency exchange rates'.

In connection with court cases the Bank also estimates the value of the provision resulting from the filed lawsuits and lawsuits that are expected to be filed in the future. The amount of the provision is estimated based on the likelihood that an adverse court judgement will be made against the Bank and its expected financial impact. The scenarios of unfavourable outcomes are based on legal opinions and the Bank's experience to date. The adopted scenarios include declaration of invalidity of the agreement, and conversion of the loan into PLN. As at the end of 2021, in its model the Bank increased the share of court cases concluded by declaring the agreement invalid to the levels currently observed on the market. As the financial effect of such an outcome is most unfavourable, the amount of the provision was increased.

The provision calculation model also contains assumptions as to the forecast increase in the number of lawsuits filed by clients over a period of three years. The number of lawsuits remained stable during the year, and the Bank did not observe any increase in its rate of growth over the last 12 months.

It is expected that the launch of the Compromise and Settlement Programme will have a positive effect on the decrease in the number of new lawsuits over the life of the Programme. Therefore, the Bank maintained its assumption as to the expected number of court cases for the next three years.

To estimate the financial loss, the Bank assesses loan agreements on a case-by-case basis, taking into account the date the loan was granted, which determines the limitation period for claims.

Apart from the provision recognised in accordance with IAS 37, the Bank also recognises impairment allowances for mortgage loans denominated in convertible currencies, assuming that the fact of bringing a court action for invalidation of the agreement is an indicator of impairment.

For information on the legal risk of the mortgage loan portfolio, see Note 37 'Provisions'.



## 19. Net impairment losses

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Securities measured at fair value through other comprehensive income	2,194	- 4,650
Securities measured at amortized cost	- 17	- 40
Amounts due from banks	373	94
Amounts due from clients and off-balance-sheet liabilities, including:	- 108,038	- 161,118
on-balance-sheet receivables	- 109,725	- 157,618
<i>from retail clients</i>	- 77,748	- 50,494
<i>from institutional clients</i>	- 31,977	- 107,124
off-balance-sheet liabilities	1,687	- 3,500
<i>from retail clients</i>	- 265	- 104
<i>from institutional clients</i>	1,952	- 3,396
<b>Total</b>	<b>- 105,488</b>	<b>- 165,714</b>

### Net impairment losses on amounts due from clients:

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Individual assessment	- 100,969	- 81,465
Group assessment	- 8,756	- 76,153
<b>Total</b>	<b>- 109,725</b>	<b>- 157,618</b>

## 20. Administrative expenses

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Employee benefits	139,300	122,541
Administrative expenses, including:	115,259	120,468
<i>material costs</i>	82,169	81,320
<i>taxes and charges</i>	3,720	1,679
<i>contribution and payments to BGF</i>	26,953	35,441
<i>contribution and payments to PFSA</i>	2,297	1,866
<i>contribution to cover operating expenses of Financial Ombudsman</i>	120	162
Amortization and depreciation, including:	45,463	42,769
<i>depreciation of property, plant and equipment</i>	8,133	7,301
<i>amortisation of tangible assets</i>	24,265	22,023
<i>depreciation of rights-of-use assets</i>	13,065	13,445
<b>Total</b>	<b>300,022</b>	<b>285,778</b>

### Employee benefits

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Salaries and wages, including:	116,766	102,195
<i>retirement benefits</i>	127	289
Social security contributions	22,534	20,346
<b>Total</b>	<b>139,300</b>	<b>122,541</b>

The Bank does not fund retirement benefits based on defined benefit plans, except for retirement severance pay paid in accordance with the BOŚ S.A. Employee Remuneration Rules.

### Depreciation of right-of-use assets

Item	December 31st 2021	December 31st 2020
Real property	12,958	13,373
Vehicles	107	72
<b>Total</b>	<b>13,065</b>	<b>13,445</b>

## 21. Income tax expense

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Current tax	- 32,185	- 27,495
Deferred tax	7,008	16,256
<b>Total</b>	<b>- 25,177</b>	<b>- 11,239</b>
<b>Profit (loss) before tax</b>	<b>73,891</b>	<b>- 299,059</b>
Income tax at 19% tax rate	- 14,039	56,820
Permanent differences between profit before tax and tax base	- 11,138	- 69,067
decreasing:	12,931	8,009
<i>reversed impairment losses</i>	793	443
<i>dividends received</i>	1,240	1,179
<i>valuation of equity-accounted companies</i>	4,341	5,864
<i>release of provisions, including provisions for court proceedings and claims for legal risk related to foreign currency mortgage loans</i>	6,222	-
<i>other</i>	335	523
increasing:	- 24,377	- 77,433
<i>recognised impairment losses</i>	- 8,130	- 1,454
<i>provisions recognised for other liabilities, including provisions for legal proceedings and claims related to foreign currency mortgage loans</i>	- 10,167	- 68,165
<i>valuation of equity-accounted subsidiaries</i>	- 244	- 265
<i>contributions to BGF</i>	- 5,121	- 6,734
<i>other</i>	- 715	- 815
deductions from taxable income:	308	357
<i>donations, R&amp;D relief</i>	308	357
<b>Tax expense on profit or loss for current year</b>	<b>- 25,177</b>	<b>- 12,247</b>
<b>Current and deferred tax for previous years</b>	<b>-</b>	<b>1,008</b>
<b>Total tax expense</b>	<b>- 25,177</b>	<b>- 11,239</b>
<b>Effective tax rate</b>	<b>34%</b>	<b>- 4%</b>

For detailed information on deferred tax, see Note 38.

## 22. Earnings (loss) per share

Basic earnings (loss) per share are calculated as the quotient of profit attributable to shareholders of the Bank and the weighted average number of ordinary shares during the year.

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Net profit (loss)	48,714	- 310,298
Weighted average number of ordinary shares (thousand)	92,910	92,910
<b>Basic earnings (loss) per share (PLN)</b>	<b>0.52</b>	<b>- 3.34</b>

Diluted earnings (loss) per share are equal to basic earnings (loss) per share in the periods presented.

## 23. Cash and balances at central bank

Item	December 31st 2021	December 31st 2020
Cash in hand	23,425	21,762
Cash and balances at central bank	338,139	244,770
<b>Total</b>	<b>361,564</b>	<b>266,532</b>

## 24. Amounts due from other banks

Item	December 31st 2021	December 31st 2020
Deposits with other banks, recognised as cash equivalents	339,005	28,815
Derivative hedging receivables	36,938	99,092
Debt securities classified as amounts due from other banks	15,078	15,051
<b>Total gross</b>	<b>391,021</b>	<b>142,958</b>
Impairment losses on debt securities classified as receivables from other banks	- 569	- 943
<b>Total net</b>	<b>390,452</b>	<b>142,015</b>

For information on amounts due from other banks by maturity, see Note 28.

#### Change in gross carrying amount of amounts due from other banks:

Item	Gross carrying amount of amounts due from				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
<b>At beginning of period January 1st 2021</b>	<b>127,907</b>	<b>15,051</b>	-	-	<b>142,958</b>
Increase due to origination and purchase	19,002	-	-	-	19,002
Change in gross carrying amount of existing portfolio	258,445	27	-	-	258,472
Decrease due to derecognition	- 29,411	-	-	-	- 29,411
<b>At end of period December 31st 2021</b>	<b>375,943</b>	<b>15,078</b>	-	-	<b>391,021</b>

Item	Gross carrying amount of amounts due from				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
<b>At beginning of period January 1st 2020</b>	<b>134,881</b>	<b>15,074</b>	-	-	<b>149,955</b>
Increase due to origination and purchase	69,272	-	-	-	69,272
Change in gross carrying amount of existing portfolio	- 16,548	-23	-	-	- 16,571
Decrease due to derecognition	- 59,698	-	-	-	- 59,698
<b>At end of period December 31st 2020</b>	<b>127,907</b>	<b>15,051</b>	-	-	<b>142,958</b>

#### Change in impairment losses on amounts due from other banks:

Item	Impairment loss on amounts due from other				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
<b>At beginning of period January 1st 2021</b>	-	<b>943</b>	-	-	<b>943</b>
Changes due to change in credit risk	-	- 374	-	-	- 374
<b>At end of period December 31st 2021</b>	-	<b>569</b>	-	-	<b>569</b>

Item	Impairment loss on amounts due from other				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
<b>At beginning of period January 1st 2020</b>	-	<b>1,038</b>	-	-	<b>1,038</b>
Changes due to change in credit risk	-	- 95	-	-	- 95
<b>At end of period December 31st 2020</b>	-	<b>943</b>	-	-	<b>943</b>

## 25. Financial assets and liabilities held for trading

Assets	December 31st 2021	December 31st 2020
Derivative financial instruments, including:	<b>115,110</b>	79,827
<i>foreign exchange and currency derivative transactions</i>	10,985	3,899
<i>interest rate derivative transactions</i>	104,125	75,928
Securities held for trading	4,200	-
<b>Total financial assets held for trading</b>	<b>119,310</b>	<b>79,827</b>
Liabilities	December 31st 2021	December 31st 2020
Derivative financial instruments, including:	<b>93,879</b>	<b>97,410</b>
<i>foreign exchange and currency derivative transactions</i>	22,408	16,772
<i>interest rate derivative transactions</i>	71,471	80,638
<b>Total financial liabilities held for trading</b>	<b>93,879</b>	<b>97,410</b>

## 26. Investment securities

Item	December 31st 2021				December 31st 2020			
	measured at fair value through other comprehensive income	measured at amortised cost	measured at fair value through profit or loss	Total	measured at fair value through other comprehensive income	measured at amortised cost	measured at fair value through profit or loss	Total
<b>Debt securities:</b>	<b>5,311,853</b>	<b>1,582,366</b>	<b>129,229</b>	<b>7,023,448</b>	<b>5,597,061</b>	<b>1,535,239</b>	<b>153,634</b>	<b>7,285,934</b>
<i>Treasury bonds</i>	1,462,432	1,373,528	-	2,835,960	2,026,964	1,397,710	-	3,424,674
<i>Treasury bills</i>	-	-	-	-	159,777	-	-	159,777
<i>NBP money market bills – recognised as cash equivalents</i>	2,899,014	-	-	2,899,014	2,179,952	-	-	2,179,952
<i>municipal bonds</i>	91,056	-	-	91,056	147,739	-	-	147,739
<i>bonds of other banks</i>	448,695	87,711	129,229	665,635	593,370	87,875	153,634	834,879
<i>bonds of other financial institutions</i>	410,656	121,127	-	531,783	489,259	49,654	-	538,913
<b>Equity securities</b>	<b>85,483</b>	<b>-</b>	<b>-</b>	<b>85,483</b>	<b>85,480</b>	<b>-</b>	<b>-</b>	<b>85,480</b>
<i>listed</i>	18,543	-	-	18,543	18,543	-	-	18,543
<i>unlisted</i>	66,940	-	-	66,940	66,937	-	-	66,937
<b>Total</b>	<b>5,397,336</b>	<b>1,582,366</b>	<b>129,229</b>	<b>7,108,931</b>	<b>5,682,541</b>	<b>1,535,239</b>	<b>153,634</b>	<b>7,371,414</b>

For information on investment securities by maturity, see Note 28.

#### Change in gross carrying amount of investment securities:

Item	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Debt securities measured at fair value through profit or loss	Equity securities measured at fair value through other comprehensive income	Total
<b>At beginning of period January 1st 2021</b>	<b>5,597,061</b>	<b>1,535,385</b>	<b>153,634</b>	<b>85,480</b>	<b>7,371,560</b>
Increase due to origination and purchase	125,080,439	70,596	-	-	125,151,035
Change in gross carrying amount of existing portfolio	-154,848	4,837	-24,405	3	-174,413
Decrease due to derecognition	-125,210,799	-28,288	-	-	-125,239,087
<b>At end of period December 31st 2021</b>	<b>5,311,853</b>	<b>1,582,530</b>	<b>129,229</b>	<b>85,483</b>	<b>7,109,095</b>

Item	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Debt securities measured at fair value through profit or loss	Equity securities measured at fair value through other comprehensive income	Total
<b>At beginning of period January 1st 2020</b>	<b>3,839,184</b>	<b>1,377,491</b>	<b>-</b>	<b>85,510</b>	<b>5,302,185</b>
Increase due to origination and purchase	105,267,786	160,586	149,625	-	105,577,997
Change in gross carrying amount of existing portfolio	22,541	-2,692	4,009	-30	23,828
Decrease due to derecognition	-103,532,450	-	-	-	-103,532,450
<b>At end of period December 31st 2020</b>	<b>5,597,061</b>	<b>1,535,385</b>	<b>153,634</b>	<b>85,480</b>	<b>7,371,560</b>



## Change in impairment losses on investment securities:

Item	Change in impairment losses on debt securities		
	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Total
<b>At beginning of period January 1st 2021</b>	<b>4,948</b>	<b>146</b>	<b>5,094</b>
Increase due to origination and purchase	5,886	9	<b>5,895</b>
Changes due to change in credit risk	-66	12	<b>-54</b>
Decrease due to derecognition	-8,014	-3	<b>-8,017</b>
<b>At end of period December 31st 2021</b>	<b>2,754</b>	<b>164</b>	<b>2,918</b>

Item	Change in impairment losses on debt securities		
	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Total
<b>At beginning of period January 1st 2020</b>	<b>298</b>	<b>107</b>	<b>405</b>
Increase due to origination and purchase	6,292	43	<b>6,335</b>
Changes due to change in credit risk	1	-4	<b>-3</b>
Decrease due to derecognition	-1,643	-	<b>-1,643</b>
<b>At end of period December 31st 2020</b>	<b>4,948</b>	<b>146</b>	<b>5,094</b>

Investment securities pledged as security (at gross carrying amount):

Item	December 31st 2021		December 31st 2020	
	measured at fair value through other comprehensive income	measured at amortised cost	measured at fair value through other comprehensive income	measured at amortised cost
<b>Security for loans received from banks and International Financial Organisations</b>	<b>207,433</b>	<b>515,537</b>	<b>361,668</b>	<b>598,119</b>
<i>up to 1 year</i>	-	-	82,129	-
<i>over 1 year</i>	207,433	515,537	279,539	598,119
<b>Security for Guaranteed Funds Protection Fund</b>	-	<b>56,705</b>	-	<b>60,849</b>
<i>over 1 year</i>	-	56,705	-	60,849
<b>Security for liabilities in the form of contributions to Guarantee Fund</b>	<b>6,960</b>	<b>20,293</b>	<b>11,992</b>	<b>12,325</b>
<i>up to 1 year</i>	-	-	4,006	-
<i>over 1 year</i>	6,960	20,293	7,986	12,325
<b>Security for liabilities in the form of contributions to Forced Restructuring Fund</b>	<b>9,942</b>	<b>23,542</b>	<b>17,017</b>	<b>13,590</b>
<i>up to 1 year</i>	-	-	5,609	-
<i>over 1 year</i>	9,942	23,542	11,408	13,590
<b>Collateral in REPO transactions</b>	<b>140,286</b>	-	<b>275,212</b>	<b>321,133</b>
<i>over 1 year</i>	140,286	-	275,212	321,133
<b>Total</b>	<b>364,621</b>	<b>616,077</b>	<b>665,889</b>	<b>1,006,016</b>

## 27. Amounts due from clients

Item	December 31st 2021			December 31st 2020		
	Gross amounts due from clients	Impairment losses	Net amounts due from clients	Gross amounts due from clients	Impairment losses	Net amounts due from clients
<b>Measured at amortised cost</b>	<b>12,931,238</b>	<b>1,108,517</b>	<b>11,822,721</b>	<b>13,028,160</b>	<b>1,196,124</b>	<b>11,832,036</b>
<b>Amounts due from retail clients</b>	<b>3,590,741</b>	<b>316,099</b>	<b>3,274,642</b>	<b>3,797,592</b>	<b>336,569</b>	<b>3,461,023</b>
<i>overdraft facilities</i>	1,605	1,381	224	1,727	1,400	327
<i>cash loans</i>	382,496	81,570	300,926	474,414	110,114	364,300
<i>housing loans</i>	2,935,010	206,917	2,728,093	3,031,302	185,429	2,845,873
<i>other credit facilities</i>	271,630	26,231	245,399	290,149	39,626	250,523
<b>Amounts due from institutional clients</b>	<b>9,340,497</b>	<b>792,418</b>	<b>8,548,079</b>	<b>9,230,568</b>	<b>859,555</b>	<b>8,371,013</b>
<i>working capital facilities</i>	727,367	78,626	648,741	611,959	93,252	518,707
<i>term facilities</i>	7,628,741	701,430	6,927,311	8,108,821	758,011	7,350,810
<i>factoring receivables</i>	606,900	6,934	599,966	337,125	5,675	331,450
<i>purchased receivables</i>	129,665	2,354	127,311	97,470	1,347	96,123
<i>commercial paper</i>	247,824	3,074	244,750	75,193	1,270	73,923
<b>Measurement at fair value through profit or loss</b>	<b>-</b>	<b>-</b>	<b>14,111</b>	<b>-</b>	<b>-</b>	<b>25,514</b>
<b>Amounts due from retail clients</b>	<b>-</b>	<b>-</b>	<b>651</b>	<b>-</b>	<b>-</b>	<b>1,192</b>
<i>housing loans</i>	-	-	257	-	-	427
<i>other credit facilities</i>	-	-	394	-	-	765
<b>Amounts due from institutional clients</b>	<b>-</b>	<b>-</b>	<b>13,460</b>	<b>-</b>	<b>-</b>	<b>24,322</b>
<i>working capital facilities</i>	-	-	19	-	-	39
<i>term facilities</i>	-	-	13,441	-	-	24,283
<b>Total</b>	<b>-</b>	<b>-</b>	<b>11,836,832</b>	<b>-</b>	<b>-</b>	<b>11,857,550</b>
Security deposits	32,811	43	32,768	31,706	2	31,704

Other amounts due from clients	2,638	-	2,638	2,599	-	2,599
<b>Total amounts due from clients</b>	-	-	<b>11,872,238</b>	-	-	<b>11,891,853</b>

Amounts due from clients included preferential loans with subsidised interest from NFOŚiFW and WFOŚiGW; in the reporting period, the amounts were as follows (nominal values):

Item	December 31st 2021	December 31st 2020
<b>Preferential loans with subsidies, including:</b>	<b>61,503</b>	<b>93,488</b>
<i>measured at amortised cost</i>	48,120	69,525
<i>measured at fair value through profit or loss</i>	13,383	23,963

## Change in gross carrying amount of and impairment losses on amounts due from clients:

Item	Gross carrying amount of amounts due from retail clients					Gross carrying amount of amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
<b>At beginning of period January 1st 2021</b>	<b>3,099,228</b>	<b>202,317</b>	<b>496,047</b>	-	<b>3,797,592</b>	<b>5,421,590</b>	<b>2,268,787</b>	<b>1,539,835</b>	<b>356</b>	<b>9,230,568</b>
Increase due to origination and purchase	249,419	785	-	1,658	251,862	1,600,106	70,156	-	9,387	1,679,649
Change in gross carrying amount of existing portfolio	- 159,864	- 9,906	- 6,190	2	- 175,958	- 15,878	- 124,974	- 32,847	- 160	- 173,859
Decrease due to derecognition	- 136,099	- 8,631	- 138,025	-	- 282,755	- 692,517	- 501,254	- 202,090	-	- 1,395,861
<i>including: change in gross carrying amount due to financial instruments that were written off in the statement of financial position</i>	-	-	- 105,394	-	- 105,394	-	-	- 105,866	-	- 105,866
Change in gross carrying amount due to reallocation of financial assets between Buckets	- 126,076	- 6,334	132,410	-	-	635,028	- 571,900	- 63,128	-	-
Reallocation to Bucket 1	41,690	- 41,034	- 656	-	-	1,363,188	- 1,168,850	- 194,338	-	-
Reallocation to Bucket 2	- 60,393	69,633	- 9,240	-	-	- 610,533	675,160	- 64,627	-	-
Reallocation to Bucket 3	- 107,373	- 34,933	142,306	-	-	- 117,627	- 78,210	195,837	-	-
Other changes	- 45	86	- 41	-	-	2,550	- 2,552	2	-	-
<b>At end of period December 31st 2021</b>	<b>2,926,563</b>	<b>178,317</b>	<b>484,201</b>	<b>1,660</b>	<b>3,590,741</b>	<b>6,950,879</b>	<b>1,138,263</b>	<b>1,241,772</b>	<b>9,583</b>	<b>9,340,497</b>

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
<b>At beginning of period January 1st 2021</b>	<b>15,509</b>	<b>21,690</b>	<b>299,370</b>	-	<b>336,569</b>	<b>69,502</b>	<b>106,965</b>	<b>683,063</b>	<b>25</b>	<b>859,555</b>
Increase due to origination and purchase	3,103	32	-	16	3,151	23,270	1,419	-	209	24,898
Changes due to change in credit risk	- 2,791	3,033	91,612	16	91,870	- 50,758	11,573	111,644	765	73,224
Decrease due to derecognition	- 870	- 641	- 113,980	-	- 115,491	- 6,537	- 23,597	- 135,125	-	- 165,259
<i>including: change in impairment losses on financial instruments written-off in the statement of financial position</i>	-	-	- 105,394	-	- 105,394	-	-	- 105,866	-	- 105,866
Change in impairment losses due to reallocations of financial assets between Buckets	3,463	- 8,450	4,987	-	-	34,646	- 30,915	- 3,731	-	-
Reallocation to Bucket 1	5,268	- 4,995	- 273	-	-	47,352	- 39,725	- 7,627	-	-
Reallocation to Bucket 2	- 508	3,699	- 3,191	-	-	- 10,915	13,673	- 2,758	-	-
Reallocation to Bucket 3	- 1,297	- 7,154	8,451	-	-	- 1,791	- 4,863	6,654	-	-
Other changes	- 11	10	1	-	-	- 65	- 40	105	-	-
<b>At end of period December 31st 2021</b>	<b>18,403</b>	<b>15,674</b>	<b>281,990</b>	<b>32</b>	<b>316,099</b>	<b>70,058</b>	<b>65,405</b>	<b>655,956</b>	<b>999</b>	<b>792,418</b>

Item	Gross carrying amount of amounts due from retail clients					Gross carrying amount of amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
<b>At beginning of period January 1st 2020</b>	<b>3,245,535</b>	<b>223,318</b>	<b>357,357</b>	-	<b>3,826,210</b>	<b>5,460,381</b>	<b>2,223,604</b>	<b>1,639,738</b>	-	<b>9,323,723</b>
Increase due to origination and purchase	266,908	187	-	-	267,095	1,147,633	51,431	-	250	1,199,314
Changes in gross carrying amount of existing portfolio	- 156,130	- 4,769	14,442	-	- 146,457	- 11,169	- 177,467	- 49,131	106	- 237,661
Decrease due to derecognition	-137,380	- 6,873	- 5,003	-	- 149,256	- 571,027	- 264,102	- 219,678	-	1,054,807
<i>including: change in gross carrying amount due to financial instruments that were written off in the statement of financial position</i>	-	-	- 282	-	- 282	- 1	-	- 167,124	-	- 167,125
Change in gross carrying amount due to reallocation of financial assets between Buckets	- 119,600	- 9,648	129,248	-	-	- 617,485	448,579	168,906	-	-
Reallocation to Bucket 1	54,658	- 54,231	- 427	-	-	232,456	- 232,424	- 32	-	-
Reallocation to Bucket 2	- 64,317	75,311	- 10,994	-	-	- 774,157	775,755	- 1,598	-	-
Reallocation to Bucket 3	- 109,941	- 30,728	140,669	-	-	- 75,784	- 94,752	170,536	-	-
Other changes	- 105	102	3	-	-	13,257	- 13,258	-	-	- 1
<b>At end of period December 31st 2020</b>	<b>3,099,228</b>	<b>202,317</b>	<b>496,047</b>	-	<b>3,797,592</b>	<b>5,421,590</b>	<b>2,268,787</b>	<b>1,539,835</b>	<b>356</b>	<b>9,230,568</b>



Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
<b>At beginning of period January 1st 2020</b>	<b>17,937</b>	<b>26,812</b>	<b>230,097</b>	-	<b>274,846</b>	<b>62,088</b>	<b>98,348</b>	<b>728,233</b>	-	<b>888,669</b>
Increase due to origination and purchase	3,423	21	-	-	3,444	16,382	1,868	-	3	18,253
Changes due to change in credit risk	- 10,290	6,362	67,145	-	63,217	- 6,926	28,806	119,421	22	141,323
Decrease due to derecognition	- 1,001	- 815	- 3,122	-	- 4,938	- 4,898	- 9,440	- 174,352	-	- 188,690
<i>including: change in impairment losses on financial instruments written-off in the statement of financial position</i>	-	-	- 282	-	- 282	- 1	-	- 167,124	-	- 167,125
Change in impairment losses due to reallocations of financial assets between Buckets	5,464	- 10,714	5,250	-	-	2,756	- 12,516	9,760	-	-
Reallocation to Bucket 1	7,297	- 7,129	- 168	-	-	16,432	- 16,423	- 9	-	-
Reallocation to Bucket 2	- 706	4,017	- 3,311	-	-	- 12,248	12,472	- 224	-	-
Reallocation to Bucket 3	- 1,127	- 7,602	8,729	-	-	- 1,428	- 8,565	9,993	-	-
Other changes	- 24	24	-	-	-	100	- 101	1	-	-
<b>At end of period December 31st 2020</b>	<b>15,509</b>	<b>21,690</b>	<b>299,370</b>	-	<b>336,569</b>	<b>69,502</b>	<b>106,965</b>	<b>683,063</b>	<b>25</b>	<b>859,555</b>

## 28. Financial assets by maturity

December 31st 2021	up to 1 month	over 1 month to 3 months	over 3 months to 6 months	over 6 months to 12 months	over 1 year to 5 years	over 5 years	undefined maturity date	Total
Amounts due from other banks (Note 24)	375,373	-	79	-	15,000	-	-	390,452
Securities held for trading (Note 25)	-	-	-	-	4,200	-	-	4,200
Securities measured at fair value through other comprehensive income (Note 26)	2,899,015	213,187	187,254	243,007	1,716,832	52,558	85,483	5,397,336
Securities measured at amortised cost (Note 26)	-	-	76,082	51,903	1,077,650	376,731	-	1,582,366
Securities measured at fair value through profit or loss (Note 26)	-	-	-	-	-	129,229	-	129,229
Amounts due from clients (Note 27)	202,595	280,592	576,266	1,325,680	5,251,688	4,235,417	-	11,872,238
<b>Total</b>	<b>3,476,983</b>	<b>493,779</b>	<b>839,681</b>	<b>1,620,590</b>	<b>8,065,370</b>	<b>4,793,935</b>	<b>85,483</b>	<b>19,375,821</b>

December 31st 2020	up to 1 month	over 1 month to 3 months	over 3 months to 6 months	over 6 months to 12 months	over 1 year to 5 years	over 5 years	undefined maturity date	Total
Amounts due from other banks (Note 24)	126,964	-	51	-	15,000	-	-	142,015
Securities held for trading (Note 25)	-	-	-	-	-	-	-	-
Securities measured at fair value through other comprehensive income (Note 26)	2,860,574	-	410,375	23,972	1,937,442	364,698	85,480	5,682,541
Securities measured at amortised cost (Note 26)	-	-	-	25,943	696,161	813,135	-	1,535,239
Securities measured at fair value through profit or loss (Note 26)	-	-	-	-	-	153,634	-	153,634
Amounts due from clients (Note 27)	171,982	351,544	530,402	1,360,052	4,532,438	4,945,435	-	11,891,853
<b>Total</b>	<b>3,159,520</b>	<b>351,544</b>	<b>940,828</b>	<b>1,409,967</b>	<b>7,181,041</b>	<b>6,276,902</b>	<b>85,480</b>	<b>19,405,282</b>

## 29. Investments in subsidiaries

Investments in subsidiaries are measured using the equity method.

Item	December 31st 2021	December 31st 2020
Dom Maklerski BOŚ S.A.	138,461	134,324
BOŚ Leasing - EKO Profit S.A.*\	60,910	59,479
<b>Total</b>	<b>199,371</b>	<b>193,803</b>

\*\valuation of BOŚ Leasing – EKO Profit includes valuation of an indirect subsidiary MS WIND sp. z o.o. (a direct subsidiary of BOŚ Leasing – Eko Profit S.A.).

### Change in carrying amount of investments in subsidiaries

Item	Dom Maklerski BOŚ S.A.	BOŚ Leasing - EKO Profit S.A.	Total
<b>Carrying amount as at January 1st 2021 measured using equity method</b>	<b>134,324</b>	<b>59,479</b>	<b>193,803</b>
Changes due to measurement of equity-accounted investments	20,137	1,430	21,567
Other	-	1	1
Decrease due to dividend payment	- 16,000	-	- 16,000
<b>Carrying amount as at December 31st 2021 measured using equity method</b>	<b>138,461</b>	<b>60,910</b>	<b>199,371</b>

## 30. Intangible assets

Item	December 31st 2021	December 31st 2020
Licenses and software, including:	81,876	90,290
<i>internally produced software</i>	917	4,245
Intangible assets under development	17,917	9,194
<b>Total</b>	<b>99,793</b>	<b>99,484</b>

Intangible assets fully amortised, in continuous use:

December 31st 2021	140,514
December 31st 2020	130,266

With respect to intangible assets that are not yet available for use, i.e., their development has not been completed, the Bank monitors the assets for potential indications of impairment on an ongoing basis. Based on the review of the expenditure on intangible assets under development, no impairment indicators were identified as at December 31st 2021 and December 31st 2020.

## Change in intangible assets

Item	Licences and software	Intangible assets under development	Total
<b>As at January 1st 2021</b>			
Gross carrying amount	341,665	9,194	350,859
Amortisation	-251,375	-	-251,375
<b>Net carrying amount</b>	<b>90,290</b>	<b>9,194</b>	<b>99,484</b>
<b>Period ended December 31st 2021</b>			
Net carrying amount at beginning of year	90,290	9,194	99,484
Increase	15,851	15,016	30,867
<i>purchase</i>	9,558	15,016	24,574
<i>transfer from intangible assets under development</i>	6,293	-	6,293
Decrease	-	-6,293	-6,293
<i>transfer to licences and software</i>	-	-6,293	-6,293
Amortisation charge	-24,265	-	-24,265
<b>Net carrying amount as at December 31st 2021</b>	<b>81,876</b>	<b>17,917</b>	<b>99,793</b>
<b>As at December 31st 2021</b>			
Gross carrying amount	357,516	17,917	375,433
Amortisation	-275,640	-	-275,640
<b>Net carrying amount as at December 31st 2021</b>	<b>81,876</b>	<b>17,917</b>	<b>99,793</b>

Item	Licences and software	Intangible assets under development	Total
<b>As at January 1st 2020</b>			
Gross carrying amount	308,485	27,036	335,521
Amortisation	-229,352	-	-229,352
<b>Net carrying amount</b>	<b>79,133</b>	<b>27,036</b>	<b>106,169</b>
<b>Period ended December 31st 2020</b>			
Net carrying amount at beginning of year	79,133	27,036	106,169
Increase	33,180	11,896	45,076
<i>purchase</i>	3,442	11,896	15,338
<i>transfer from intangible assets under development</i>	29,738	-	29,738
Decrease	-	-29,738	-29,738
<i>transfer to licences and software</i>	-	-29,738	-29,738
Amortisation charge	-22,023	-	-22,023
<b>Net carrying amount as at December 31st 2020</b>	<b>90,290</b>	<b>9,194</b>	<b>99,484</b>
<b>As at December 31st 2020</b>			
Gross carrying amount	341,665	9,194	350,859
Amortisation	-251,375	-	-251,375
<b>Net carrying amount as at December 31st 2020</b>	<b>90,290</b>	<b>9,194</b>	<b>99,484</b>

## 31. Property, plant and equipment

Item	December 31st 2021	December 31st 2020
Property, plant and equipment, including:	38,128	36,089
<i>land</i>	182	182
<i>buildings and premises</i>	4,539	4,679
<i>leasehold improvements</i>	2,947	3,171
<i>computer hardware and technical equipment</i>	28,587	26,078
<i>vehicles</i>	-	9
<i>other property, plant and equipment</i>	1,873	1,970
Property, plant and equipment under construction	1,194	2,167
Advance payments	-	173
<b>Total</b>	<b>39,322</b>	<b>38,429</b>

As at December 31st 2021 and December 31st 2020, there were no assets withdrawn from active use and held for sale.

## Change in property, plant and equipment

Item	Land and buildings	Leasehold improvements	Technical equipment, vehicles and other equipment	Property, plant and equipment under construction	Advance payments	Total
<b>As at January 1st 2021</b>						
Gross carrying amount	8,555	27,816	86,971	2,167	173	125,682
Depreciation	- 3,694	- 24,645	- 58,914	-	-	- 87,253
<b>Net carrying amount</b>	<b>4,861</b>	<b>3,171</b>	<b>28,057</b>	<b>2,167</b>	<b>173</b>	<b>38,429</b>
<b>Period ended December 31st 2021</b>						
Net carrying amount at beginning of year	4,861	3,171	28,057	2,167	173	38,429
Increase:	69	1,309	8,843	1,477	-	11,698
<i>purchases</i>	69	-	7,702	1,477	-	9,248
<i>reclassification from investments</i>	-	1,309	1,141	-	-	2,450
Decrease:	-	- 2,692	- 14,452	- 2,450	- 173	- 19,767
<i>retirement/sale</i>	-	- 2,692	- 14,452	-	- 173	- 17,317
<i>reclassification from investments</i>	-	-	-	- 2,450	-	- 2,450
Depreciation charge	- 209	- 1,517	- 6,407	-	-	- 8,133
Reversal of depreciation charge due to retirement/sale	-	2,676	14,419	-	-	17,095
<b>Net carrying amount as at December 31st 2021</b>	<b>4,721</b>	<b>2,947</b>	<b>30,460</b>	<b>1,194</b>	<b>-</b>	<b>39,322</b>
<b>As at December 31st 2021</b>						
Gross carrying amount	8,624	26,433	81,362	1,194	-	117,613
Depreciation	- 3,903	- 23,486	- 50,902	-	-	- 78,291
<b>Net carrying amount</b>	<b>4,721</b>	<b>2,947</b>	<b>30,460</b>	<b>1,194</b>	<b>-</b>	<b>39,322</b>

In the presented periods there were no temporarily unused assets with significant carrying amount.



Item	Land and buildings	Leasehold improvements	Technical equipment, vehicles and other equipment	Property, plant and equipment under construction	Advance payments	Total
<b>As at January 1st 2020</b>						
Gross carrying amount	7,822	28,545	81,196	3,824	-	121,387
Depreciation	-3,503	-24,351	-64,201	-	-	-92,055
<b>Net carrying amount</b>	<b>4,319</b>	<b>4,194</b>	<b>16,995</b>	<b>3,824</b>	<b>-</b>	<b>29,332</b>
<b>Period ended December 31st 2020</b>						
Net carrying amount at beginning of year	4,319	4,194	16,995	3,824	-	29,332
Increase:	733	335	16,854	11,791	173	29,886
<i>purchases</i>	-	-	4,473	11,791	173	16,437
<i>reclassification from investments</i>	733	335	12,381	-	-	13,449
Decrease:	-	-1,064	-11,079	-13,448	-	-25,591
<i>retirement/sale</i>	-	-1,064	-11,079	-	-	-12,143
<i>reclassification from investments</i>	-	-	-	-13,448	-	-13,448
Depreciation charge	-191	-1,358	-5,752	-	-	-7,301
Reversal of depreciation charge due to retirement/sale	-	1,064	11,039	-	-	12,103
<b>Net carrying amount as at December 31st 2020</b>	<b>4,861</b>	<b>3,171</b>	<b>28,057</b>	<b>2,167</b>	<b>173</b>	<b>38,429</b>
<b>As at December 31st 2020</b>						
Gross carrying amount	8,555	27,816	86,971	2,167	173	125,682
Depreciation	-3,694	-24,645	-58,914	-	-	-87,253
<b>Net carrying amount</b>	<b>4,861</b>	<b>3,171</b>	<b>28,057</b>	<b>2,167</b>	<b>173</b>	<b>38,429</b>

## 32. Right of use – leases

Item	December 31st 2021	December 31st 2020
Real property	72,523	63,380
Vehicles	148	102
<b>Total</b>	<b>72,671</b>	<b>63,482</b>

### Change in right-of-use assets – leases

Change in right-of-use asset	Real property and land	Vehicles	Total
<b>As at January 1st 2021</b>			
Gross carrying amount	91,142	221	91,363
Depreciation	- 27,762	- 119	- 27,881
<b>Net carrying amount</b>	<b>63,380</b>	<b>102</b>	<b>63,482</b>
<b>As at December 31st 2021</b>			
Net carrying amount at beginning of year	63,380	102	63,482
Increase	22,566	153	22,719
Decrease	- 4,548	-	- 4,548
Depreciation charge	- 12,958	- 107	- 13,065
Reversal of depreciation charge	4,083	-	4,083
<b>Gross carrying amount at December 31st 2021</b>	<b>72,523</b>	<b>148</b>	<b>72,671</b>
<b>As at December 31st 2021</b>			
Gross carrying amount	109,160	374	109,534
Depreciation	- 36,637	- 226	- 36,863
<b>Net carrying amount</b>	<b>72,523</b>	<b>148</b>	<b>72,671</b>

Change in right-of-use asset	Real property and land	Vehicles	Total
<b>As at January 1st 2020</b>			
Gross carrying amount	88,338	221	88,559
Depreciation	- 15,182	-47	- 15,229
<b>Net carrying amount</b>	<b>73,156</b>	<b>174</b>	<b>73,330</b>
Net carrying amount at beginning of year	73,156	174	73,330
Increase	3,723	-	3,723
Decrease	- 919	-	- 919
Depreciation charge	- 13,373	-72	- 13,445
Reversal of depreciation charge	793	-	793
<b>Gross carrying amount at December 31st 2020</b>	<b>63,380</b>	<b>102</b>	<b>63,482</b>
<b>As at December 31st 2020</b>			
Gross carrying amount	91,142	221	91,363
Depreciation	- 27,762	- 119	- 27,881
<b>Net carrying amount</b>	<b>63,380</b>	<b>102</b>	<b>63,482</b>

### 33. Other assets

Item	December 31st 2021	December 31st 2020
Up-front expenses	5,324	4,824
Cash surplus	2,151	1,307
Interbank settlements	-	1,733
Payment card settlements	4,949	251
Assorted debtors	3,831	4,150
Public charges	315	269
Accrued income	13,278	15,204
Non-contractual receivables under cancelled foreign currency loan agreements	2,396	-
Other	4	158
<b>Total</b>	<b>32,248</b>	<b>27,896</b>

## 34. Amounts due to central bank and other banks

Item	December 31st 2021	December 31st 2020
Deposits from other banks	275,826	242,498
Repurchase transactions	144,563	490,245
<b>Total</b>	<b>420,389</b>	<b>732,743</b>

### Amounts due to central bank and other banks, by maturity:

Item	December 31st 2021	December 31st 2020
up to 1 month	126,258	144,937
over 1 month to 3 months	68,951	154,473
over 3 months to 6 months	88,745	255,834
over 6 months to 12 months	136,435	92,284
from 1 to 5 years	-	85,215
<b>Total</b>	<b>420,389</b>	<b>732,743</b>

## 35. Amounts due to clients

Item	December 31st 2021	December 31st 2020
Retail clients	7,397,756	8,414,930
<i>current/checking accounts</i>	3,824,753	4,240,548
<i>term deposits</i>	3,573,003	4,174,382
Institutional clients	8,917,630	7,262,493
<i>current/checking accounts</i>	7,372,660	6,080,790
<i>term deposits</i>	1,544,970	1,181,703
Other clients	87,729	74,763
Borrowings from international financial institutions	510,954	715,708
Lending support funds	98,077	85,883
<b>Total</b>	<b>17,012,146</b>	<b>16,553,777</b>

In 2021 and 2020, the Bank made all principal and interest payments on time, and did not breach any other contractual provisions regarding its payment obligations.

#### Amounts due to clients, by maturity:

Item	December 31st 2021	December 31st 2020
up to 1 month	12,624,569	11,575,025
over 1 month to 3 months	1,670,636	1,647,640
over 3 months to 6 months	1,176,370	1,203,745
over 6 months to 12 months	641,283	834,411
from 1 to 5 years	764,593	1,113,773
over 5 years	134,695	179,183
<b>Total</b>	<b>17,012,146</b>	<b>16,553,777</b>

## 36. Subordinated liabilities

Series	Currency	Interest rate	Maturity	Nominal value	Amount outstanding	Nominal value	Amount outstanding
				December 31st 2021		December 31st 2020	
AA1	PLN	6M WIBOR + margin (six-month coupons)	7 years (with early repayment option after 5 years)	34,214	34,889	34,214	34,884
AA2	PLN	6M WIBOR + margin (six-month coupons)	7 years (with early repayment option after 5 years)	65,786	66,347	65,786	66,259
P	PLN	6M WIBOR + margin (six-month coupons)	10 years (with early repayment option after 5 years)	150,000	151,814	150,000	151,834
R1	PLN	6M WIBOR + margin (six-month coupons)	10 years (with early repayment option after 5 years)	83,000	83,572	83,000	83,566
W	PLN	6M WIBOR + margin (six-month coupons)	7 years (with early repayment option after 5 years)	32,500	32,485	32,500	32,453
<b>Total</b>				<b>365,500</b>	<b>369,107</b>	<b>365,500</b>	<b>368,996</b>

## 37. Provisions

Item	December 31st 2021	December 31st 2020
Provisions for contingent liabilities, including:	30,046	31,733
<i>open lines of credit</i>	16,613	21,393
<i>guarantees</i>	13,433	10,340
Provision for employee benefits – retirement and disability benefits	3,086	2,976
Provision for legal risk related to foreign currency mortgage loans	408,146	376,410
Provision for refund of commission fees due to early loan repayment	952	1,534
Provision for other liabilities and claims	2,364	2,417
<b>Total</b>	<b>444,594</b>	<b>415,070</b>

### Change in provisions

Item	December 31st 2021	December 31st 2020
<b>Provisions for contingent liabilities</b>		
<b>At beginning of period</b>	<b>31,733</b>	<b>28,233</b>
<i>recognition of provisions for impairment of off-balance-sheet liabilities</i>	81,911	71,875
<i>reversal of provisions for impairment of off-balance-sheet liabilities</i>	- 83,598	-68,375
<b>At end of period</b>	<b>30,046</b>	<b>31,733</b>
<b>Provisions for employee benefits</b>		
<b>At beginning of period</b>	<b>2,976</b>	<b>2,767</b>
<i>recognition of provisions</i>	437	519
<i>use of provisions</i>	- 327	-310
<b>At end of period</b>	<b>3,086</b>	<b>2,976</b>
<b>Provision for legal risk related to foreign currency mortgage loans</b>		
<b>At beginning of period</b>	<b>376,410</b>	<b>23,181</b>
<i>recognition of provisions</i>	53,065	353,021
<i>accounting for provision discount</i>	-	614
<i>exchange differences on measurement of provisions</i>	25,443	-
<i>use of provisions</i>	- 3,443	-395
<i>reversal of provisions</i>	- 32,282	-11
<i>decrease in translation reserves</i>	- 11,047	-
<b>At end of period</b>	<b>408,146</b>	<b>376,410</b>

<b>Provision for refund of commission fees due to early loan repayment</b>		
<b>At beginning of period</b>	<b>1,534</b>	<b>1,183</b>
<i>recognition of provisions</i>	184	1,269
<i>use of provisions</i>	- 267	-918
<i>released provisions</i>	- 499	-
<b>At end of period</b>	<b>952</b>	<b>1,534</b>
<b>Provision for other liabilities and claims</b>		
<b>At beginning of period</b>	<b>2,417</b>	<b>2,508</b>
<i>recognition of provisions</i>	445	5,745
<i>use of provisions</i>	- 32	-3,700
<i>reversal of provisions</i>	- 466	-2,136
<b>At end of period</b>	<b>2,364</b>	<b>2,417</b>
<b>Total provisions at end of period</b>	<b>444,594</b>	<b>415,070</b>

**Present value of future retirement and disability benefit obligations to employees in employment as at December 31st 2021:**

<b>Item</b>	<b>December 31st 2021</b>	<b>December 31st 2020</b>
<b>Wage growth rate</b>	<b>2.5% (0% in 2021)</b>	<b>2.5% (0% in 2020)</b>
Interest rate for future obligations due to:		
<i>retirement and disability benefits</i>	1.50%	1.50%
Amounts recognised in comprehensive income with respect to the defined benefit plans:		
Cost of benefits:		
Current service cost	273	235
Net interest expense	36	42
<b>Components of defined benefit plan costs recognised in profit or loss</b>	<b>309</b>	<b>277</b>
Increase (decrease) in net defined benefit obligation:		
Actuarial gains and losses due to changes in financial assumptions	128	84
Actuarial gains and losses due to experience adjustments	-	158
<b>Components of defined benefit plan costs recognised in other comprehensive income</b>	<b>128</b>	<b>242</b>
<b>Total</b>	<b>437</b>	<b>519</b>

## Defined benefit obligations

Item	December 31st 2021	December 31st 2020
<b>AMOUNTS RECOGNISED IN COMPREHENSIVE INCOME WITH RESPECT TO THE DEFINED BENEFIT PLANS:</b>		
<b>At beginning of period</b>	<b>2,976</b>	<b>2,767</b>
Current service cost	273	235
Interest expense	36	42
(Gains) losses on revaluation:		
Actuarial gains and losses due to changes in financial assumptions	128	84
Actuarial gains and losses due to experience adjustments	-	158
Benefits paid	- 327	-310
<b>At end of period</b>	<b>3,086</b>	<b>2,976</b>

The calculation of the present value of future retirement and disability benefit obligations relates to the current population of Bank employees and does not take account of any future employees of the Bank. It consists in determining the employees' entitlement to a specified part of the severance benefit in the year following the calculation date using the projected unit credit method of calculating the actuarial present value of future obligations. The present value of an employee's entitlement to a certain part of the future severance benefit was calculated on the assumption that the employee would continue to be employed by the Group until the benefit is paid, and was discounted at the moment of calculation.

The vested portion of the benefit entitlement is the quotient of the current length of service of the employee and the length of service required to receive the retirement or disability benefit.

Disability benefits are calculated as the sum of the products of the probabilities of becoming disabled in future years for a person of a certain age and the vested portion of the benefit in each year, over the entire projected period, and are discounted at the time of valuation. The vested portion of the disability benefit in each year is calculated by dividing the current length of service by the length of service in that future year.

The present value of the vested entitlements is calculated assuming an increase in the base amount of severance benefit until payment at the rate of salary increase.

As at December 31st 2021, the discount rate of 3.90% was used to estimate employee benefit obligations. Using the discount rate of 3.65%, employee benefit obligations would amount to PLN 3,130 thousand as at December 31st 2021, and at the discount rate of 4.15% the obligations would amount to PLN 3,043 thousand.

As at December 31st 2020, the discount rate of 1.50% was used to estimate employee benefit obligations. Using the discount rate of 1.75%, employee benefit obligations would amount to PLN 2,933 thousand as at December 31st 2020, and at the discount rate of 1.25% the obligations would amount to PLN 3,020 thousand.



The Bank estimates that the outflow of economic benefits resulting from the provision will occur in the presented periods:

Item	December 31st 2021	December 31st 2020
up to 1 year	794	678
from 1 to 5 years	731	818
from 5 to 10 years	893	710
from 10 to 20 years	635	687
over 20 years	33	83
<b>Total</b>	<b>3,086</b>	<b>2,976</b>

**Provisions for court proceedings, legal risk related to foreign currency mortgage loans, claims and reimbursement of commission fees are recognised at the amount of expected outflows of economic benefits in the presented periods:**

Item	January 1st – December 31st 2021		January 1st – December 31st 2020	
	Amount	Expected outflow of benefits	Amount	Expected outflow of benefits
Provision for other liabilities and claims	2,364		2,417	
	298	up to 1 year	417	up to 1 year
	2,066	over 1 year	2,000	over 1 year
Provision for legal risk related to foreign currency mortgage loans	408,146		376,410	
	70,130	up to 1 year	-	up to 1 year
	338,016	over 1 year	376,410	over 1 year
Provision for refund of commission fees due to early loan repayment	952		1,534	
	317	up to 1 year	-	up to 1 year
	635	over 1 year	1,534	over 1 year
<b>Total</b>	<b>411,462</b>		<b>380,361</b>	

### 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 an agreement for the provision of a CHF-indexed loan.

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 tied to foreign currency exchange rates be recognised as invalid or, alternatively, that the denomination (currency translation) clauses be found/ruled abusive.

### **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.

Total amount of claims under pending proceedings in the periods presented:

Item	December 31st 2021	December 31st 2020
Bank as respondent:	212,160	91,369
Bank as claimant:	108,790	93,357

In the opinion of the Management Board, materialisation of the risks arising from the proceedings, except for those provisioned for, is probable but not likely. All risks arising from proceedings pending before a court or public administration authority are adequately provisioned for.

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.

## 38. Deferred income tax

Deferred income tax is calculated on all temporary differences using an income tax rate of 19%.

### Balance of deferred income tax

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
At beginning of period	115,694	104,171
Change, including:	29,253	11,523
<i>impairment losses on receivables</i>	4,869	9,953
<i>valuation of assets</i>	18,593	- 3,225
<i>deferred expenses</i>	- 2,778	- 3,326
<i>interest received on securities previously purchased by the Bank</i>	- 916	- 1,124
<i>other differences</i>	- 713	719
<i>commission fees accounted for using effective tax rate</i>	3,428	1,995
<i>non-depreciated property, plant and equipment covered by investment tax relief</i>	- 382	800
<i>provisions for material, labour and other costs</i>	1,171	667
<i>accrued income</i>	5,733	4,815
<i>IBNR recognised as tax-deductible</i>	248	249
At end of period	144,947	115,694

### Deferred tax recognised in revaluation reserve:

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
At beginning of period	- 15,920	- 11,188
Change due to measurement of assets	22,245	- 4,732
At end of period	6,325	- 15,920

**Deferred tax liabilities and assets are allocated to the following items:**

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
<b>Deferred tax liabilities arising from:</b>		
<i>accrued income</i>	27,068	32,801
<i>increase on valuation of assets</i>	36,255	40,646
<i>non-depreciated property, plant and equipment covered by investment tax relief</i>	12,271	11,889
<i>paid commission fees to be accounted for using effective tax rate</i>	2,911	3,088
<i>IBNR recognised as tax-deductible in previous years</i>	746	993
<b>Total</b>	<b>79,251</b>	<b>89,417</b>

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
<b>Deferred tax assets due to:</b>		
<i>non-deductible impairment losses</i>	128,529	123,660
<i>received commission fees to be accounted for using effective tax rate</i>	20,847	17,974
<i>provisions for material, labour and other costs</i>	6,542	5,372
<i>deferred expenses</i>	16,292	19,069
<i>interest received on securities previously purchased by the Bank</i>	6,398	7,314
<i>decrease on valuation of assets</i>	38,583	24,380
<i>other temporary differences</i>	7,007	7,342
<b>Total</b>	<b>224,198</b>	<b>205,111</b>

The Bank analysed the sensitivity of recoverable deferred tax assets. As at December 31st 2021, deferred tax assets were PLN 224,198 thousand, of which the most significant items were recognised impairment losses on non-performing credit exposures of PLN 128,529 thousand and valuation of non-current and current assets of PLN 38,583 thousand.

**Change in deferred tax in the period**

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
<b>At beginning of period</b>	<b>115,694</b>	<b>104,171</b>
change in deductible temporary differences	19,086	17,186
change in taxable temporary differences	10,167	- 5,663
<b>Total change, including:</b>	<b>29,253</b>	<b>11,523</b>
change in revaluation reserve	22,244	- 4,732
change recognised in profit or loss	7,096	16,255

At end of period

144,947

115,694

## 39. Lease liabilities

As a lessee, the Bank recognises a lease in the statement of financial position as a right-of-use asset and a corresponding liability on the date on which the leased asset is available for use. Each lease payment is allocated between the reduction of the liability and the finance cost. The finance cost is recognised in the statement of profit or loss over the lease term. The right-of-use asset is depreciated using the straight-line method. Lease liabilities were measured at the present value of future lease payments, discounted using the Company's incremental borrowing rate as at January 1st 2019 of 5.00%. For contracts concluded in September 2020 and later for up to five years, the rate is 5.25%, and for contracts concluded for terms of over five to nine years the rate is 5.75%.

As a lessee, the Bank leases vehicles and real property.

Leases are typically for terms ranging from 1 to 10 years. Lease terms are negotiated individually.

The lease contracts do not impose any obligations, but the leased assets cannot be used as collateral for borrowings.

### Maturity of lease liabilities

Item	December 31st 2021		
	Properties	Vehicles	Total
up to 1 year	527	42	569
from 1 to 5 years	19,142	134	19,276
over 5 years	55,469	-	55,469
<b>Total</b>	<b>75,138</b>	<b>176</b>	<b>75,314</b>

Item	December 31st 2020		
	Real property	Vehicles	Total
up to 1 year	919	13	932
from 1 to 5 years	5,044	92	5,136
over 5 years	60,665	-	60,665
<b>Total</b>	<b>66,628</b>	<b>105</b>	<b>66,733</b>

Liabilities arising from property lease contracts relate to commercial properties used by the Bank as part of its business activities.

For contracts denominated in the euro, the amount of monthly consideration is the PLN equivalent (calculated at the mid-rate quoted by the National Bank of Poland) of total fees and charges for the leased space, determined as the product of the net price, expressed in EUR per square metre, and the area actually leased, plus VAT.

For contracts denominated in the Polish zloty, the amount of monthly consideration is the total of fees and charges for the leased space, determined as the product of the net price per square metre, and the area actually leased, plus VAT.

Monthly consideration is value-adjusted by the rates and on the dates specified in the lease contracts. The contracts denominated in EUR are value-adjusted using the indices applicable in the European Union. The contracts denominated in PLN are value-adjusted using the consumer price index for the previous period announced by the President of Statistics Poland.

The contracts do not contain options to purchase the property.

Contracts are concluded for a definite period; some of the contracts are not terminable, but some stipulate early termination or expiry if a party to the contract is dissolved, in which case a period of notice of 6 or 12 months applies. Some of the contracts may be extended on their current terms and conditions based on a declaration of will of the lessor made in writing six months before the expiry of the contract.

The Bank applied the exemptions allowed under IFRS 16 for:

1. leases of low-value assets,
2. short-term leases of up to 12 months.

Low-value lease contracts are contracts where the value of the underlying asset is low, i.e., does not exceed PLN 20 thousand.

Payments under the exempt contracts are recognised as an expense in the statement of profit or loss on a straight-line basis.

#### Future minimum lease payments under IFRS 16-exempt contracts:

As at December 31st 2021:

Item	Properties	Vehicles	Total
low-value leases	94	211	305
short-term leases	1,456	-	1,456
<b>Total</b>	<b>1,550</b>	<b>211</b>	<b>1,761</b>

As at December 31st 2020:

Item	Properties	Vehicles	Total
low-value leases	285	466	751
short-term leases	1,063	-	1,063
<b>Total</b>	<b>1,348</b>	<b>466</b>	<b>1,814</b>

## 40. Other liabilities

Item	December 31st 2021	December 31st 2020
Interbank settlements	47,301	22,760
Accrued expenses and deferred income	27,101	20,249
Public charges	5,462	6,335
Trade liabilities	70,285	65,021
Deferred commissions	7,379	5,904
Payment card settlements	1,135	4,898
Provision for refund of commission fees due to early loan repayment	3,310	3,526
Other	844	537
<b>Total</b>	<b>162,817</b>	<b>129,230</b>

## 41. Contingent assets and liabilities

Item	December 31st 2021	December 31st 2020
<b>Contingent liabilities:</b>	<b>3,370,486</b>	<b>2,956,784</b>
Financial, including:	2,920,453	2,583,937
open credit lines, including:	2,899,502	2,558,517
<i>revocable</i>	2,443,944	2,223,974
<i>irrevocable</i>	455,558	334,543
open import letters of credit	20,951	20,250
loan commitments, including:	-	5,170
<i>irrevocable</i>	-	5,170
guarantees, including:	450,033	372,847
<i>credit repayment sureties and guarantees</i>	12,739	12,739
<i>performance bonds</i>	437,294	360,108
<b>Contingent assets:</b>	<b>2,126,300</b>	<b>899,975</b>
Financial, including:	344,955	-
<i>open lines of credit</i>	344,955	-
Guarantees	1,781,345	899,975
<b>Total contingent assets and contingent liabilities</b>	<b>5,496,786</b>	<b>3,856,759</b>



## 42. Common equity

### Registered share capital

As of December 31st 2021, the share capital was PLN 929,477 thousand and did not change relative to the amount as at December 31 2020.

Series/issue	Type of shares	Type of preference	Number of shares	Par value of series/issue, PLN thousand	Method of payment for shares	Date of registration	Dividend right as of:
A	○	ordinary	236,700	2,367	cash	09-01-91	01-01-92
B	○	ordinary	1,263,300	12,633	cash	11-03-92	01-01-93
C	○	ordinary	477,600	4,776	cash	30-12-92	01-01-93
C	○	ordinary	22,400	224	in-kind contribution	30-12-92	01-01-93
D	○	ordinary	1,300,000	13,000	cash	30-12-93	01-01-94
E	○	ordinary	647,300	6,473	cash	30-06-94	01-01-95
E	○	ordinary	15,500	155	in-kind contribution	30-06-94	01-01-95
E	○	ordinary	37,200	372	in-kind contribution	30-06-94	01-01-95
F	○	ordinary	1,500,000	15,000	cash	30-12-94	01-01-95
G	○	ordinary	1,260,000	12,600	cash	30-06-95	01-01-96
H	○	ordinary	670,000	6,700	cash	30-06-95	01-01-96
I	○	ordinary	70,000	700	cash	30-06-95	01-01-96
J	○	ordinary	1,055,000	10,550	cash	21-06-96	01-01-96
K	○	ordinary	945,000	9,450	cash	21-06-96	01-01-96
L	○	ordinary	1,200,000	12,000	cash	29-11-96	01-01-96
M	○	ordinary	2,500,000	25,000	cash	07-05-98	01-01-97
N	○	ordinary	1,853,000	18,530	cash	13-06-07	01-01-07
O	○	ordinary	1,320,245	13,202	in-kind contribution	25-06-10	01-01-10
P	○	ordinary	6,500,000	65,000	cash	15-06-12	01-01-11
U	○	ordinary	40,000,000	400,000	cash	12-07-17	01-01-16
V	○	ordinary	30,074,426	300,744	cash	04-07-18	01-01-18
Total number of shares			92,947,671				
Total par value of share capital				929,477			
Total share capital				929,477			

Par value of share is PLN 10.

As at December 31st 2021, the total number of voting rights attached to all shares issued by the Bank was 92,947,671 and did not change relative to December 31st 2020.

Each share carries the right to one vote at the General Meeting.

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

Shareholder	December 31st 2021		December 31st 2020	
	Number of voting rights (shares)	% voting interest (ownership interest)	Number of voting rights (shares)	% voting interest (ownership interest)
Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (National Fund for Environmental Protection and Water Management)	53,951,960	58.05	53,951,960	58.05
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Fund for Investments of Polish Enterprises Closed-End Fund for Non-Public Assets)	8,000,000	8.61	8,000,000	8.61
Dyrekcja Generalna Lasów Państwowych (Directorate General of State Forests)	5,148,000	5.54	5,148,000	5.54

Other shareholders hold in total 27.8% of shares in the Bank's share capital.

As at the date of these full-year financial statements, no changes in the ownership structure of major holdings were known.

#### 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, including:

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

#### Share premium

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

As at December 31st 2021 and December 31st 2020, the share premium was PLN 532,851 thousand.

## 43. Revaluation reserve

Item	December 31st 2021	December 31st 2020
Remeasurement of financial assets measured at fair value through other comprehensive income	-36,530	80,236
Remeasurement of employee benefit obligations	3,243	3,553
Deferred income tax	6,325	-15,920
<b>Total revaluation reserve</b>	<b>- 26,962</b>	<b>67,869</b>

### Change in revaluation reserve

Item	
<b>As at January 1st 2021</b>	<b>67,869</b>
Increase due to:	249,345
<i>measurement of investment securities</i>	249,345
Decrease due to:	-366,421
<i>measurement of investment securities</i>	-366,111
<i>remeasurement of employee benefit obligations</i>	-310
Deferred income tax	22,245
<b>As at December 31st 2021</b>	<b>-26,962</b>

<b>As at January 1st 2020</b>	<b>47,695</b>
Increase due to:	298,690
<i>measurement of investment securities</i>	298,690
Decrease due to:	-273,783
<i>measurement of investment securities</i>	-273,541
<i>remeasurement of employee benefit obligations</i>	-242
Deferred income tax	-4,733
<b>As at December 31st 2020</b>	<b>67,869</b>

## 44. Retained earnings

Retained earnings comprise: other statutory reserve funds, general risk fund and undistributed profit or loss.

Item	December 31st 2021	December 31st 2020
<b>Other statutory reserve funds</b>	<b>333,871</b>	<b>726,193</b>
<i>statutory</i>	44,000	44,000
<i>created pursuant to the Articles of Association above the statutory minimum</i>	285,546	677,868
<i>other</i>	4,325	4,325
<b>General risk fund</b>	<b>48,302</b>	<b>48,302</b>
<b>Undistributed profit (loss)</b>	<b>48,714</b>	<b>- 392,322</b>
<i>retained earnings</i>	-	- 82,024
<i>net profit (loss) for current period</i>	48,714	- 310,298
<b>Total retained earnings</b>	<b>430,887</b>	<b>382,173</b>

Statutory reserve funds are created from annual profit appropriations of at least 8% of net profit, until such time as the balance of the funds equals at least one third of the share capital. A portion of the of the reserve funds, equal to one-third of the share capital, may be used exclusively for offsetting losses disclosed in the financial statements.

Other reserves are created by appropriating net profit for the year, irrespective of the statutory reserve funds, and are earmarked for offsetting specific losses and expenses.

The General Meeting makes decisions concerning the use of the statutory reserve funds and other reserves.

The general risk fund designated for unidentified risks in the Bank's business is created by appropriating net profit for the year, in accordance with the applicable provisions of the banking law.

On June 23rd 2021, the Annual General Meeting of Bank Ochrony Środowiska S.A. passed a resolution to cover the Bank's loss for the period January 1st–December 31st 2020 of PLN 310,298 thousand from statutory reserve funds.

## 45. Hedge accounting

### Hedge accounting policies

Hedge accounting is an integral part of the financial risk management process. Financial risk is managed as part of the risk management process in place at the Bank.

The Bank hedges the interest rate risk in the banking book The Bank uses fair value hedges to hedge the fair value of fixed-rate Treasury bonds.

### Cash flow hedge accounting

As at December 31st 2021, the Bank did not apply cash flow hedge accounting.

### Fair value hedge accounting

During the hedging period, the Bank hedges the volatility of fair value of fixed-rate bonds , resulting from movements of market interest rates. The hedged item is part of the Treasury bonds held in the HtCS business model. The hedging instrument is an Interest Rate Swap (IRS), under which the Bank makes a payment based on a fixed interest rate and receives a coupon based on a variable rate (6M WIBOR).

By establishing a hedging relationship, the netting effect of changes in the fair value of the hedging instrument and the hedged item is obtained in profit or loss. Only one type of risk (i.e., the risk of interest rate volatility) is hedged. The spread between quote prices of the Treasury bonds and the IRS transactions is not hedged.

The hedge is expected to be highly effective in offsetting fair value changes resulting from the hedged risk. The effectiveness of the hedge is verified by using prospective and retrospective hedge effectiveness tests. The prospective test is based on the analysis of BPV of the hedged item and the hedging instrument. The retrospective test is performed based on the direct offset method, which compares changes in the value of the hedging transaction and the hedged item resulting from changes in the hedged risk. The retrospective test is positive if the offset ratio is within the range <0.8;1.25>. The tests are performed on a quarterly basis. The Bank does not identify any significant sources of ineffectiveness the fair value hedging.

Changes in the fair value of the hedged item resulting from movements of market interest rates are recognised in the statement of profit or loss. Changes in the fair value of the bonds not attributable to changes in the hedged risk are recognised in revaluation reserve. Changes in the measurement of the hedging instrument are recognised in the statement of profit or loss.

As of December 31st 2021, the Bank had one fair value hedge relationship – a hedge established on October 20th 2015.

The hedged item within the hedging relationship established in 2015 includes PLN 240 million of State Treasury bonds DS0725, maturing in July 2025.

As at 31 December 2021, an amount of PLN 5,097 thousand resulting from changes in fair value of the bonds due to movements of interest rates and changes in the fair value of the IRS transactions was recognised in profit or loss account. The amount of PLN -6,731 thousand was recognized in the revaluation reserve. It represented the sum of the impact of the bonds on equity as at the date the hedge relationship was established (PLN -11,345 thousand) and the change in the fair value of the bonds resulting from the unhedged part of the risk (spread between the quoted prices of the bonds and the IRS transactions).

Item	December 31st 2021			December 31st 2020		
	carrying amount	nominal value	fair value*\	carrying amount	nominal value	fair value*\
<b>Hedging instruments</b>						
Interest Rate Swap (IRS) – negative valuation	9,121	258,000	11,587	24,497	258,000	22,083
<b>Hedged items</b>						
Treasury bonds – positive valuation	238,620	240,000	-6,490	273,804	240,000	26,415
<b>Total effect on profit or loss</b>			<b>5,097</b>			<b>4,332</b>

\*\for the hedged bonds it is an adjustment to the fair value

## 46. Share-based payments

### Executive Compensation Policy

In order to meet the requirements set out in the Regulation of the Minister of Finance, Funds and Regional Policy of June 8th 2021 on risk management and internal control systems, remuneration policy and detailed method of calculating internal capital in banks, and in accordance with the provisions of Directive 2013/36/EU of the European Parliament and of the Council of June 26th 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the Bank implemented the Executive Compensation Policy approved by the Supervisory Board of Bank Ochrony Środowiska S.A.

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

In the reporting period, the Compensation Policy was revised twice, i.e.,

1. in connection with the need to implement EU laws regarding capital requirements for financial institutions (the CRD V/CRR II package) which were introduced to the domestic legal order in the amended Banking Law and in the amended Regulation of the Minister of Finance, Funds and Regional Policy of June 8th 2021 on risk management and internal control systems and remuneration policy at banks.

The revised Compensation Policy provides for, among other things:

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

The terms 'shares' is understood to include:

- shares of Bank Ochrony Środowiska S.A. listed on the Warsaw Stock Exchange,
- virtual, or phantom, shares with a value per phantom share equal to the price of the Bank shares listed on the Warsaw Stock Exchange;

- 2) payment of 40% of the variable remuneration in five deferred equal annual instalments, with at least 50% of each tranche paid in Bank shares and the balance paid in cash. The deferred part may be suspended, reduced or not paid or realised at all if the Bank's results differ significantly from the approved financial plan for a given year, or when the circumstance specified in Article 142.1 of the Banking Law occur;
- 3) performance evaluation covering a three-year period so that the amount of performance-based remuneration takes into account the business cycle of the Bank and the risks involved in its business activity. The term 'performance' is understood to mean actual delivery of productivity, financial, sales and other targets set forth in the Bank's strategy or financial plan for a given year;
- 4) gender neutrality.

The above policies apply to variable remuneration for 2021 and beyond.

2. in connection with the requirement to implement Recommendation No. 15 of the PFSA Recommendation Z regarding the rules of internal governance at banks, which obliged banks to develop and implement transparent and understandable principles of remuneration, drawn up in writing and approved by the Supervisory Board, where, inter alia, the maximum ratio of the average total annual gross remuneration of the members of the Management Board to the average total annual gross remuneration of the other employees was set at 1:16.

In view of the above, and fulfilling the disclosure obligation under Recommendation No. 30.1. of the PFSA Recommendation Z and the Compensation Policy, the Bank reports that the ratio of the average total gross remuneration of the members of the Management Board to the average total gross remuneration of the other employees of the Bank in 2021 was 6.21 and thus did not exceed the set value.

The maximum amount of variable remuneration for each managing person may not exceed 100% of the person's fixed remuneration. The General Meeting of Bank Ochrony Środowiska S.A. may give its consent to increasing the maximum level of variable remuneration up to 200% of the fixed remuneration, in accordance with the procedure provided for in §25.3.4.b) and §25.3.4.b) of the Regulation of the Minister of Finance, Funds and Regional Policy. The increase in the maximum amount of variable remuneration referred to in the preceding sentence does not apply to members of the Management Board.

During the reporting period:

1. after the end of the retention period, the phantom shares awarded as part of the non-deferred variable remuneration for 2019 and the first tranche of the deferred variable remuneration for 2018, with a total gross amount of PLN 306.8 thousand (38,045 phantom shares times the price equal to the arithmetic average of the closing price at the first five sessions after the end of the retention period, i.e., PLN 8.064), were converted into cash and paid out,
2. the second (of three) tranche of deferred variable remuneration for 2018 was settled; the total expected cost will amount to PLN 79.4 thousand gross, including payments in the form of phantom shares constituting a short-term benefit to be paid after the lapse of the retention period, i.e., after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 5,450 shares, and the amount of PLN 39.7 thousand gross was paid in cash as a short-term benefit,
3. the first (of three) tranche of deferred variable remuneration for 2019 was settled; the total expected cost will amount to PLN 87.2 thousand gross, including payments in the form of phantom shares constituting a short-term benefit to be paid after the lapse of the retention period, i.e., after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 6,364 shares, and the amount of PLN 43.6 thousand gross was paid in cash as a short-term benefit;
4. it was determined that due to non-fulfilment of the vesting condition for the variable remuneration (bonus), 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 Management Board of the Bank);
5. two persons holding managerial positions identified as having a significant impact on the Bank's risk profile were paid a cash award for 2020 in the amount of PLN 10 thousand each. In accordance with the provisions of Chapter IV par. 14.4 of the Executive Compensation Policy, the variable remuneration was not subject to the mechanism of deferment and payment of a part of the remuneration in the form of shares.

The amount of variable remuneration for 2021 has not yet been determined and awarded.

## 47. Notes to the statement of cash flows

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include the following highly liquid balances with maturities of less than three months.

Item	December 31st 2021	December 31st 2020
Cash and balances with central bank (Note 23)	361,564	266,532
Deposits with other banks, recognised as cash equivalents (Note 24)	339,005	28,815
Investment securities (Note 26)	2,899,014	2,179,952
<b>Total</b>	<b>3,599,583</b>	<b>2,475,299</b>

The balance of cash and cash equivalents includes the obligatory reserve maintained in the account with the NBP.

On June 21st 2018, the Management Board of the National Bank of Poland passed a resolution to exempt the Bank from the obligation to maintain 55% of the required minimum reserves. The exemption is effective from July 2nd 2018 to December 31st 2021.

In accordance with Par. 12 of NBP Resolution No. 40/2015, the Bank may use the funds held in the obligatory reserve for current cash settlements.

The amount of the obligatory reserve declared to be maintained in December 2021 was PLN 295,202 thousand (December 2020: PLN 31,408 thousand). The Bank is required to maintain the average cash balance per month above the declared obligatory reserve.



**Explanation of differences between changes in the statement of financial position and changes of the corresponding items disclosed in the statement of cash flows from operating activities**

Item	for the year ended	
	December 31st 2021	December 31st 2020
Change in amounts due from other banks	- 248,437	6,903
Change in deposits with other banks, recognised as cash equivalents	310,190	-30,546
<b>Total change in deposits with other banks and amounts due from other banks</b>	<b>61,753</b>	<b>-23,643</b>
Change in investment securities	262,483	-2,069,336
Change in investment securities recognised in cash and cash equivalents	719,062	860,117
Redemption of held-to-maturity securities	- 28,287	-
Purchase of securities measured at amortised cost	70,595	160,586
Interest income on securities measured at amortised cost	- 45,169	-57,489
Transfer of interest on securities measured at amortised cost to interest on investing activities	49,988	54,758
Remeasurement of financial assets measured at fair value through other comprehensive income	- 116,766	25,149
<b>Total change in investment securities</b>	<b>911,906</b>	<b>-1,026,215</b>
Change in investments in subsidiaries	- 5,568	-26,414
Valuation of shares using the equity method	21,567	29,471
Other changes	1	-
Dividends received	- 16,000	-3,057
<b>Total change in investments in subsidiaries</b>	<b>-</b>	<b>-</b>
Change in other assets and income tax	- 25,172	-23,745
Deferred income tax expense disclosed in the statement of profit or loss	7,008	16,256
Deferred income tax on measurement of investment securities and employee benefits	22,245	-4,732
Non-monetary changes in intangible assets, property, plant and equipment and right-of-use assets – leases	47	37
Other changes	- 1	-
<b>Total change in other assets and income tax</b>	<b>4,127</b>	<b>-12,184</b>
Change in provisions	29,524	357,198
Effect of actuarial valuation on revaluation reserve	- 310	-243
<b>Total change in provisions</b>	<b>29,214</b>	<b>365,955</b>
Change in other liabilities and income tax	41,020	66
Current income tax expense	- 32,185	-27,495
Income tax paid	24,752	45,131

<b>Total change in other liabilities and income tax</b>	<b>33,587</b>	<b>17,702</b>
Change in liabilities arising from issue of bank securities	111	-1,735
Interest paid on bonds issued by the Bank, including:	12,036	14,440
<i>on subordinated bonds</i>	12,036	14,440
Interest accrued on bonds issued by the Bank, including:	- 12,147	-12,705
<i>on subordinated bonds</i>	- 12,147	-12,705
<b>Total change in liabilities arising from issue of bank securities</b>	<b>-</b>	<b>-</b>

## 48. Description of derivative financial instruments and foreign exchange transactions

### Foreign exchange and currency derivative transactions:

Instrument	December 31st 2021	December 31st	December 31st 2021	December 31st	December 31st 2021	December 31st
	FX Swap		FX Forward		FX Spot	
Description of the instrument	A transaction that obligates the parties to a contract to enter into an initial exchange of currencies on a specified date and at a specified exchange rate and a forward (final) exchange rate for that currency on a specified date in the future (other than the first leg settlement) and at a rate agreed upon at the date of the transaction (usually different from the initial exchange rate). The currency that one counterparty is required to pay to the other as a result of the final exchange is the same currency that the counterparty received in the initial exchange.		A forward transaction to exchange a specified amount of currency for another currency on a specified date, at a fixed forward rate. This is a forward outright contract. All terms and conditions of the transaction are determined on the date of its execution.		A transaction to exchange a specific amount of currency for another currency, at a rate agreed upon at the time of the transaction. Typically, the transaction is settled within two business days of the execution date.	
Purpose of acquisition or issue	for trading/liquidity		for trading		for trading	
Number of transactions	31	44	91	97	43	94
Notional amount (PLN thousand)	439,791	672,825	383,526	220,458	110,894	187,206
Fair value (PLN thousand)	-20,685	-13,833	9,316	872	-54	88
- positive	839	113	10,071	2,926	75	860
- negative	-21,524	-13,946	-755	-2,054	-129	-772

Future income / payments	Variable		Variable		Variable	
Average maturity	2022-02-22	2021-03-30	2022-05-08	2021-06-12	2022-01-03	2021-01-04
Early settlement	None		At client's request		None	
Exchange or conversion into another asset/ liability	None		None		None	
Other terms	None		None		None	
Type of risk associated with the derivative instrument	Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk	

**Interest rate derivative transactions:**

Instrument	December	December	December	December	December	December	December	December
	Interest rate swaps (IRS)		Interest rate swaps (IRS hedging PLN)		Interest rate swaps (IRS hedging EUR)		Forward transactions in bonds	
Description of the instrument	A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments made are expressed in the same currency and calculated at a fixed rate for each party (one rate may be fixed and the other variable or both may be variable but depend on different indices). This category also includes IRS transactions whose notional amount changes over time – amortised swaps.		A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments made are expressed in the same currency and calculated at a fixed rate for each party (one rate may be fixed and the other variable or both may be variable but depend on different indices).		A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments made are expressed in the same currency and calculated at a fixed rate for each party (one rate may be fixed and the other variable or both may be variable but depend on different indices).		A forward transaction to buy/sell a specified amount of a security on a specified date at a fixed forward price. All terms and conditions of the transaction are determined on the date of its execution.	
Purpose of acquisition or issue	for trading		as hedge (fair value hedge accounting)		as hedge (cash flow hedge accounting)		for trading	
Number of transactions	162	209	2	2	-	-	-	-
Notional amount (PLN thousand)	3,731,294	5,230,860	258,000	258,000	-	-	-	-

Fair value (PLN thousand)	32,654	-4,710	9,121	-24,497	-	-	-	-
- positive	104,125	75,928	9,121	-	-	-	-	-
- negative	-71,471	-80,638	-	-24,497	-	-	-	-
Future income / payments	Variable		Variable		Variable		Variable	
Average maturity	2025-07-17	2023-10-27	2025-07-25	2025-07-25	-	-	-	-
Early settlement	Possible in transactions with non-banking clients where so specified in the contract. Possible, rarely used.		None		None		None	
Exchange or conversion into another asset/ liability	None		None		None		None	
Other terms	None		None		None		None	
Type of risk	Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk	

#### Foreign exchange and currency derivative transactions:

Item	December 31st 2021	December 31st 2020
Notional value	934,211	1,080,489
Total foreign exchange and currency derivative transactions:		
<i>assets</i>	10,985	3,899
<i>liabilities</i>	-22,408	-16,772

#### Interest rate derivative transactions:

Item	December 31st 2021	December 31st 2020
Notional value	3,989,294	5,488,860
Total interest rate derivative transactions:		
<i>assets</i>	113,246	75,928
<i>liabilities</i>	-71,471	-105,135

#### Total derivative financial instruments:

Item	December 31st 2021	December 31st 2020
Notional value	4,923,505	6,569,349
Total derivative financial instruments:		
<i>assets</i>	124,231	79,827
<i>liabilities</i>	-93,879	-121,907

#### Offsetting financial assets and financial liabilities

The Bank does not offset its financial instruments in financial assets and liabilities recognised in the financial statements.

## 49. Fair value of financial assets and liabilities

The carrying amount and the fair value of financial assets and liabilities other than measured at fair value disclosed in the financial statements are presented below.

Item	Carrying amount as at December 31st 2021	Fair value as at December 31st 2021	Carrying amount as at December 31st 2020	Fair value as at December 31st 2020
<b>FINANCIAL ASSETS</b>				
Amounts due from other banks	390,452	392,591	142,015	145,212
Amounts due from clients including:	11,872,238	11,831,517	11,891,853	11,756,309
amounts due in PLN	9,370,349	9,388,870	9,085,130	8,997,950
amounts due in foreign currencies	2,501,889	2,442,647	2,806,723	2,758,359
Investment securities – measured at amortised cost	1,582,366	1,544,358	1,535,239	1,615,371
Debt securities, including:	1,582,366	1,544,358	1,535,239	1,615,371
<i>Treasury securities</i>	1,373,528	1,362,035	1,397,710	1,472,158
<i>other</i>	208,838	182,323	137,529	143,213
<b>FINANCIAL LIABILITIES</b>				
Amounts due to central bank and other banks	420,389	420,389	732,743	732,743
Amounts due to clients, including:	17,012,146	17,020,095	16,553,777	16,576,524
<i>institutional clients</i>	9,015,707	9,015,780	7,348,376	7,348,121
<i>retail clients</i>	7,397,756	7,405,359	8,414,930	8,437,386
<i>other clients</i>	87,729	87,729	74,763	74,763
<i>international financial institutions</i>	510,954	511,227	715,708	716,254
Subordinated liabilities	369,107	356,419	368,996	351,812

### Amounts due from other banks

Amounts due from other banks include interbank deposits, nostro accounts and loans and advances. Fair value of interbank deposits, due to their short-term nature (fixed-rate interbank deposits up to six months) is equal to their carrying amount. Bonds issued by banks were measured at fair value, after accounting for a change in the credit spread calculated on the basis of comparable issues by similar banks.



### **Amounts due from clients**

Amounts due from clients are disclosed net of impairment allowances. Amounts due from clients in the balance sheet are chiefly measured at amortised cost using the effective interest rate (99% of the carrying amount of credit facilities).

The fair value of credit facilities is assumed to be their value resulting from currently estimated future principal and interest cash flows (separately for facilities denominated in foreign currencies and for facilities denominated in PLN) calculated using the effective interest rate for each facility (except for facilities with an undetermined schedule or non-performing loans, for which the fair value is assumed to be the same as carrying amount) and discounted at the average effective interest rate of the facilities granted over the last twelve months. For mortgage loans, account was taken of prepayments. In the case of facilities in foreign currencies, which the Bank ceased to grant, an average effective interest rate on the corresponding facilities denominated in PLN was applied, adjusted for the difference between the rates in specific currencies and PLN.

### **Investment securities measured at amortised cost**

Investment securities measured at amortised cost include Treasury bonds held within the HtC business model. The fair value of the bonds is assumed to be the current valuation derived from quoted market prices plus accrued interest.

### **Amounts due to central bank and other banks**

Amounts due to the central bank as well as liabilities arising from repo transactions are disclosed at carrying amount. Liabilities arising from repo transactions were recognised at carrying amount due to the lack of available market data necessary to calculate the fair value of basic repo transactions of the Bank with the counterparty.

Interbank deposits, due to short maturities, were disclosed at carrying amounts, and the borrowings (principal and interest) were discounted using the average effective interest rate.

### **Amounts due to clients**

Amounts due to clients disclosed in the statement of financial position are measured at amortised cost, using the effective interest rate method. The fair value of amounts due to clients is assumed to be their value resulting from discounting principal and interest for all deposits at the weighted average interest rate that was in effect for deposits accepted in December 2021. In the absence of payment schedules for current accounts, they were recognised at the carrying amount.

Amounts due to international financial institutions (principal and interest) were discounted using the average effective interest rate (for EUR) or the interest rate of the most recent transaction executed in a given currency (for PLN).

### **Liabilities arising from issue of securities**

Liabilities arising from issue of securities are measured at fair value taking into account change in credit spread for PLN-denominated bonds, determined based on the latest issue carried out by the Bank.

### **Subordinated liabilities**

Subordinated liabilities were measured at fair value, with the change in the credit spread determined on the basis of the latest issue made by the Bank.

## 50. Allocation of financial instruments measured at fair value based on the fair value measurement method

Under IFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When estimating fair value, the Bank takes into account the adjustment for counterparty credit risk.

As at December 31st 2021 and December 31st 2020, the Bank allocated financial assets and liabilities measured at fair value into three categories (levels) based on the measurement method:

- 1. Level 1: mark-to-market valuation** directly from available quotations of instruments on the market. This applies to quoted equity and debt securities and NBP bills (quotations based on the reference rate),
- 2. Level 2: mark-to-model valuation approach**, with model parameterisation based on active market quotations for the type of instruments concerned or prices obtained in transactions concluded close to the reporting date on normal market terms. Fair value is also determined by reference to other, similar instruments, by analysing discounted cash flow and with other valuation methods commonly used by market participants, and in the case of financial instruments to which no valuation method can be applied – at cost. This applies to unlisted bank securities, equity securities and derivatives (including forward transactions for securities), except where they meet the criteria for allocation to Level 3. Due to the above, the fair value of these securities is based on the valuation model developed by the Company and using comparable values for businesses listed on the Warsaw Stock Exchange,
- 3. Level 3: mark-to-model valuation approach**, with model parameterisation based on active market quotes for a given type of instruments and the model parameters based on estimated risk factors. This applies to municipal securities (measured using the discounted cash flows method, with credit spreads used in the valuation determined on the basis of internal ratings), securities of other banks (prices are determined based on the margins of securities quoted in the market at the time of price determination, issued by selected issuers), unlisted equity securities and illiquid equity securities (measured using the discounted cash flows method).

# Financial instruments by fair-value hierarchy level:

December 31st 2021	Level 1	Level 2	Level 3	Total
<b>Financial assets held for trading</b>	<b>4,200</b>	<b>115,110</b>	<b>-</b>	<b>119,310</b>
Debt securities	4,200	-	-	4,200
Derivative financial instruments	-	115,110	-	115,110
<b>Derivative hedging instruments</b>	<b>-</b>	<b>9,121</b>	<b>-</b>	<b>9,121</b>
<b>Investment securities measured at fair value through other comprehensive income</b>	<b>4,379,989</b>	<b>129,229</b>	<b>1,017,347</b>	<b>5,526,565</b>
<i>debt securities</i>	4,361,446	129,229	950,407	5,441,082
<i>equity securities</i>	18,543	-	66,940	85,483
<b>Amounts due from other banks</b>	<b>-</b>	<b>-</b>	<b>392,591</b>	<b>392,591</b>
<b>Amounts due from clients</b>	<b>-</b>	<b>-</b>	<b>11,831,517</b>	<b>11,831,517</b>
<b>Investment securities measured at amortised cost</b>	<b>1,544,358</b>	<b>-</b>	<b>-</b>	<b>1,544,358</b>
<b>Total</b>	<b>5,928,547</b>	<b>253,460</b>	<b>13,241,455</b>	<b>19,423,462</b>

December 31st 2021	Level 1	Level 2	Level 3	Total
<b>Financial liabilities held for trading</b>	<b>-</b>	<b>93,879</b>	<b>-</b>	<b>93,879</b>
Derivative financial instruments	-	93,879	-	93,879
<b>Derivative hedging instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Amounts due to other banks</b>	<b>-</b>	<b>-</b>	<b>420,389</b>	<b>420,389</b>
<b>Amounts due to clients</b>	<b>-</b>	<b>-</b>	<b>17,020,095</b>	<b>17,020,095</b>
<b>Subordinated liabilities</b>	<b>-</b>	<b>-</b>	<b>356,419</b>	<b>356,419</b>
<b>Total</b>	<b>-</b>	<b>93,879</b>	<b>17,796,903</b>	<b>17,890,782</b>

Changes in securities measured at fair value through other comprehensive income	Level 3
<b>At beginning of period January 1st 2021</b>	<b>1,297,304</b>
Purchase	1,154,823
Sale and redemption	-1,365,770
Total gains and losses	-69,010
<i>in profit or loss</i>	-14,931
<i>in other comprehensive income</i>	-54,079
<b>At end of period December 31st 2021</b>	<b>1,017,347</b>

December 31st 2020	Level 1	Level 2	Level 3	Total
<b>Financial assets held for trading</b>	-	79,827	-	79,827
Derivative financial instruments	-	79,827	-	79,827
<b>Investment securities measured at fair value through other comprehensive income</b>	4,385,236	153,634	1,297,305	5,836,175
<i>debt securities</i>	4,366,693	153,634	1,230,368	5,750,695
<i>equity securities</i>	18,543	-	66,937	85,480
<b>Amounts due from other banks</b>	-	-	145,212	145,212
<b>Amounts due from clients</b>	-	-	11,756,309	11,756,309
<b>Investment securities measured at amortised cost</b>	1,615,371	-	-	1,615,371
<b>Total</b>	6,000,607	233,461	13,198,826	19,432,894

December 31st 2020	Level 1	Level 2	Level 3	Total
<b>Financial liabilities held for trading</b>	-	97,410	-	97,410
Derivative financial instruments	-	97,410	-	97,410
<b>Derivative hedging instruments</b>	-	24,497	-	24,497
<b>Amounts due to other banks</b>	-	-	732,743	732,743
<b>Amounts due to clients</b>	-	-	16,576,524	16,576,524
<b>Subordinated liabilities</b>	-	-	351,812	351,812
<b>Total</b>	-	121,907	17,661,079	17,782,986

Changes in securities measured at fair value through other comprehensive income	Level 3
<b>At beginning of period January 1st 2020</b>	305,126
Purchase	1,385,613
Sale and redemption	- 405,181
Total gains and losses	11,746
<i>in profit or loss</i>	- 6,799
<i>in other comprehensive income</i>	18,545
<b>At end of period December 31st 2020</b>	1,297,304

Financial instruments may be reallocated between Level 1 and Level 2 based on the availability of quotations from an active market at the reporting date.

An instrument is reallocated from Level 2 to Level 3 when valuation changes from an observable factor to an unobservable factor or when a new unobservable risk factor is applied to the valuation that simultaneously results in a significant effect on the valuation of the instrument.

An instrument is reallocated Level 3 to Level 2 when valuation changes from an unobservable factor to an observable factor or when the effect of the unobservable factor on the valuation of the instrument ceases to be significant. Reallocations between the measurement methods take place on the date and as at the end of the reporting period.

In the period from January 1st to December 31st 2021, there were no reallocations of instruments between the levels. Measurement of Level 3 instruments does not affect the statement of profit or loss.

The fair value measurement of Level 3 instruments is disclosed in other comprehensive income. Net profit (loss) includes accrued interest, interest paid, discount or premium, foreign exchange differences and reversed provisions (in the case of equity securities).

As at December 31st 2021, the sensitivity of the valuation of municipal instruments allocated to Level 3 to a +/- 1 bp change in the credit spread (unobservable model parameter) was PLN 24 thousand (December 31st 2020: PLN 51 thousand).

## 51. Segment reporting

In accordance with IFRS 8, operating segments are determined on the basis of internal reports on components of an enterprise that are subject to periodic reviews by the management responsible for taking operational decisions. IFRS 8 defines an operating segment as a component of an entity:

1. that engages in business activities from which it may earn revenues and incur expenses,
2. whose operating results are regularly reviewed by the entity's chief operating decision maker,
3. for which discrete financial information is available.

The following is the policy for segment reporting applied in the periods ended December 31st 2021 and December 31st 2020, by the following lines of business:

1. institutional clients,
2. retail clients,
3. treasury and investments,
4. other (not allocated to the segments).

The Institutional Client business line covers transactions made through Business Centres, branches and the Bank's Head Office with corporate clients, small and medium-sized enterprises and micro-enterprises. The Retail Clients business line includes transactions with private individuals.

The Treasury and Investments business line includes transactions on the interbank market as well as transaction in debt securities, derivatives, and equity investments. Treasury and investment activities include management of the Bank's liquidity, foreign exchange and interest rate risks and fund transfer pricing settlements with other business divisions (segments).

Brokerage activities include services for retail and institutional clients.

Other activities (not allocated to segments) include items of the statement of profit or loss that are not allocated to any of the business areas listed in items 1-3, in particular income and expenses related to unclassified clients.

The financial data of BOŚ Leasing-EKO Profit S.A. and MS Wind Sp. z o.o. are classified into the institutional client segment.

The treasury and investment products include financial instruments, current and term deposits, interbank deposits and deposits from ALM clients, loans from other banks and loans granted to banks, debt and equity securities, and derivatives.

Brokerage activities mainly involve purchase and sale of securities for the banking book and for the trading book, maintaining securities accounts, fee-based management of third parties' securities portfolios, and offering securities the primary market or through initial public offerings.

Assets and liabilities of the areas specified in items 1-2 above have been separated on the basis of the Bank's lending and deposit base.

Net interest income includes transfer settlements between the Institutional client segment, the retail client segment, and the treasury and investment business. Transfer measurement of funds is based on reference rates and additional funding rates, taking into account currency, stability of funds and maturities, which are referenced to the yield curve. All relevant assets and interest-bearing liabilities, as well as off-balance sheet items that generate demand for liquidity are subject to transfer rates measurement. Measurement is performed on a monthly basis and is based on the (daily) average of individual interest-rate transactions allocated to a given division separately for each currency.

The operating result of the institutional client segment and the retail client segment is the result on banking activity of these divisions less administrative costs directly attributable to the segments' transactions or units and less costs and loss allowances allocated to the segments. The financial result also includes intersegment settlements arising from services provided to institutional clients by the Bank's branches (whose primary focus is the provision of services to retail clients).

Segment's net finance income (costs) comprises:

1. Net interest income, i.e., the sum of the difference between interest income on credit facilities and municipal bonds from clients and cost of funds received from ALM (treasury and investment activity) and income from the transfer of funds to ALM less interest expenses paid to the Bank's clients.
2. Net fee and commission income, i.e., the difference between fee and commission income and expenses allocated to a given transaction and allocated to the business area. The net result includes income and expenses both recognised on a one-off basis and accounted for on a straight-line basis, while transaction-related income and expenses accounted for at the effective interest rate are recognised in net interest income.
3. Gain (loss) on foreign exchange transactions, i.e., income on negotiated FX transactions (forwards and spots) and income on foreign exchange according to the Bank's exchange rate table. The item includes gain (loss) on derivative transactions.
4. Net impairment losses and measurement of receivables at fair value through profit or loss, i.e., gain (loss) on changes in impairment losses on loans, municipal and corporate bonds, and gain (loss) on loans, municipal and corporate bonds measured at fair value allocated to a given business area. The result includes changes in the portfolio of impaired foreign currency loans due to exchange rate fluctuations.

The financial result of the treasury and investment business area is the sum of the results of the treasury and equity investment business areas of the Bank, which include:

1. Interest income – calculated as the sum of interest income on transactions with external clients and the result of transfer pricing settlements between funds and other segments. External interest income and expense relate to transactions on the interbank market (deposits and loans), as well as debt securities purchased and issued. The result on transfer pricing settlements of funds is the difference between income from financing of assets of other segments and transfer costs for deposits received from other segments.
2. Gain (loss) on foreign exchange transactions includes gain (loss) on foreign exchange trading transactions, remeasurement of the provision for foreign-currency loans, and changes in the measurement of active currency forward hedges. This item includes gain (loss) of foreign exchange transactions not allocated to other segments.
3. Gain (loss) on hedge accounting includes gain (loss) on cash-flow hedging transactions and fair-value hedging transactions.
4. Gain (loss) on financial instruments measured at fair value through profit or loss, gain (loss) on transactions in the trading book and on transactions in financial instruments, including FX swaps.
5. Gain (loss) on investment securities – gain (loss) on shares and debt securities and on measurement of financial instruments.
6. Dividend income.
7. Difference in value of impairment allowances, gain (loss) on shares and exposures to financial institutions allocated to the treasury and investment business area.

Below are presented the financial results of the Bank for the periods ended December 31st 2021 and December 31st 2020 attributable to the reportable segments.

No.	Selected items of the statement of profit and loss for the 12 months ended 31 December 2021	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	OTHER (NOT ALLOCATED TO SEGMENTS)	Total
<b>I.</b>	<b>Net interest income</b>	<b>160,043</b>	<b>55,062</b>	<b>150,858</b>	<b>-</b>	<b>365,963</b>
1.	Interest and similar income, including:	278,165	137,282	9,450	-	424,897
	<i>transactions with external clients</i>	261,063	89,114	74,720	-	424,897
	<i>transactions with other segments</i>	17,102	48,168	- 65,270	-	-
2.	Interest expense and similar charges, including:	- 118,122	- 82,220	141,408	-	- 58,934
	<i>transactions with external clients</i>	- 7,705	- 27,498	- 23,731	-	- 58,934
	<i>transactions with other segments</i>	- 110,417	- 54,722	165,139	-	-
<b>II.</b>	<b>Net fee and commission income</b>	<b>66,124</b>	<b>7,331</b>	<b>-</b>	<b>- 546</b>	<b>72,909</b>
III.	Dividend income	241	-	6,286	-	6,527
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	24	52	20,146	-	20,222
V.	Gain (loss) on hedge accounting	-	-	764	-	764
VI.	Gain (loss) on investment securities	-	-	197	-	197
VII.	Gain (loss) on foreign exchange transactions	18,495	14,070	- 7,308	-	25,257
<b>VIII.</b>	<b>Net banking income</b>	<b>244,927</b>	<b>76,515</b>	<b>170,943</b>	<b>- 546</b>	<b>491,839</b>
IX.	Net other income and expenses	- 11,472	- 5,613	11,047	- 7,184	- 13,222
X.	Effect of legal risk of mortgage loans denominated in foreign currencies	-	- 20,783	-	-	- 20,783
XI.	Net impairment losses	- 29,790	- 78,008	2,324	- 14	- 105,488
<b>XII.</b>	<b>Net finance income (costs)</b>	<b>203,665</b>	<b>- 27,889</b>	<b>184,314</b>	<b>- 7,744</b>	<b>352,346</b>



1.	Direct costs	- 28,352	- 23,006	- 2,564	-	- 53,922
	<b>Profit (loss) after direct costs</b>	<b>175,313</b>	<b>- 50,895</b>	<b>181,750</b>	<b>- 7,744</b>	<b>298,424</b>
2.	Indirect costs and mutual services	- 74,746	- 78,323	- 14,477	-	- 167,546
	<b>Profit (loss) after direct and indirect costs</b>	<b>100,567</b>	<b>- 129,218</b>	<b>167,273</b>	<b>- 7,744</b>	<b>130,878</b>
3.	Amortisation/depreciation	- 19,930	- 23,460	- 2,073	-	- 45,463
4.	Other costs (taxes, BFG, PFSA)	- 18,531	- 14,061	- 499	-	- 33,091
<b>XIII</b>	<b>Share of profit (loss) of equity-accounted entities</b>	<b>21,567</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,567</b>
<b>XIV.</b>	<b>PROFIT (LOSS) BEFORE TAX</b>	<b>83,673</b>	<b>- 166,739</b>	<b>164,701</b>	<b>- 7,744</b>	<b>73,891</b>
XV.	Allocated profit (loss) of ALM	90,014	53,971	- 143,985	-	-
<b>XVI.</b>	<b>Gross profit (loss) after ALM allocation</b>	<b>173,687</b>	<b>- 112,768</b>	<b>20,716</b>	<b>- 7,744</b>	<b>73,891</b>
XVII.	Income tax expense	-	-	-	-	- 25,177
<b>XVIII.</b>	<b>NET PROFIT (LOSS)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,714</b>
	<b>Segment assets</b>	<b>8,652,595</b>	<b>3,275,293</b>	<b>8,342,247</b>	<b>179,833</b>	<b>20,449,968</b>
	<i>including amounts due from banks and clients</i>	8,561,539	3,275,293	423,220	2,638	12,262,690
	<b>Segment liabilities</b>	<b>8,917,630</b>	<b>7,397,756</b>	<b>3,358,038</b>	<b>776,544</b>	<b>20,449,968</b>
	<i>of which amounts due to banks and clients</i>	8,917,630	7,397,756	1,029,420	87,729	17,432,535
	<b>Expenditure on property, plant and equipment and intangible assets</b>	<b>16,061</b>	<b>15,584</b>	<b>2,201</b>	<b>-</b>	<b>33,846</b>

No.	Selected items of the statement of profit and loss for the 12 months ended 31 December 2020	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	OTHER (NOT ALLOCATED TO SEGMENTS)	Total
<b>I.</b>	<b>Net interest income</b>	<b>199,634</b>	<b>57,102</b>	<b>110,559</b>	<b>-</b>	<b>367,295</b>
1.	Interest and similar income, including:	366,025	226,171	- 75,916	-	516,280
	<i>transactions with external clients</i>	313,634	108,232	94,414	-	516,280
	<i>transactions with other segments</i>	52,391	117,939	- 170,330	-	-
2.	Interest expense and similar charges, including:	- 166,391	- 169,069	186,475	-	- 148,985
	<i>transactions with external clients</i>	- 24,924	- 96,298	- 27,763	-	- 148,985
	<i>transactions with other segments</i>	- 141,467	- 72,771	214,238	-	-
<b>II.</b>	<b>Net fee and commission income</b>	<b>54,776</b>	<b>8,670</b>	<b>2</b>	<b>- 752</b>	<b>62,696</b>
III.	Dividend income	679	-	5,526	-	6,205
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	15	18	18,568	-	18,601
V.	Gain (loss) on hedge accounting	-	-	- 2,038	-	- 2,038
VI.	Gain (loss) on investment securities	-	-	4,239	-	4,239
VII.	Gain (loss) on foreign exchange transactions	12,185	2,981	9,905	-	25,071
<b>VIII.</b>	<b>Net banking income</b>	<b>267,289</b>	<b>68,771</b>	<b>146,761</b>	<b>- 752</b>	<b>482,069</b>
IX.	Net other income and expenses	- 504	594	- 6	- 6,181	- 6,097
X.	Effect of legal risk of mortgage loans denominated in foreign currencies	-	- 353,010	-	-	- 353,010
XI.	Net impairment losses	- 112,483	- 50,718	- 2,513	-	- 165,714

<b>XII.</b>	<b>Net finance income (costs)</b>	<b>154,302</b>	<b>- 334,363</b>	<b>144,242</b>	<b>- 6,933</b>	<b>- 42,752</b>
1.	Direct costs	- 20,552	- 23,229	-	-	- 43,781
	<b>Profit (loss) after direct costs</b>	<b>133,750</b>	<b>- 357,592</b>	<b>144,242</b>	<b>- 6,933</b>	<b>- 86,533</b>
2.	Indirect costs and mutual services	- 71,172	- 73,768	- 15,141	-	- 160,081
	<b>Profit (loss) after direct and indirect costs</b>	<b>62,578</b>	<b>- 431,360</b>	<b>129,101</b>	<b>- 6,933</b>	<b>- 246,614</b>
3.	Amortisation/depreciation	- 18,113	- 22,737	- 1,919	-	- 42,769
4.	Other costs (taxes, BFG, PFSA)	- 21,728	- 17,203	- 216	-	- 39,147
<b>XIII</b>	<b>Share of profit (loss) of equity-accounted entities</b>	<b>29,471</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,471</b>
<b>XIV.</b>	<b>PROFIT (LOSS) BEFORE TAX</b>	<b>52,208</b>	<b>- 471,300</b>	<b>126,966</b>	<b>- 6,933</b>	<b>- 299,059</b>
XV.	Allocated profit (loss) of ALM	69,595	56,596	- 126,191	-	-
<b>XVI.</b>	<b>Gross profit (loss) after ALM allocation</b>	<b>121,803</b>	<b>- 414,704</b>	<b>775</b>	<b>- 6,933</b>	<b>- 299,059</b>
XVII.	Income tax expense					- 11,239
<b>XVIII.</b>	<b>NET PROFIT (LOSS)</b>					<b>- 310,298</b>
	<b>Segment assets</b>	<b>8,543,073</b>	<b>3,462,215</b>	<b>7,945,149</b>	<b>348,425</b>	<b>20,298,862</b>
	<i>including amounts due from banks and clients</i>	8,395,335	3,462,215	173,719	2,599	12,033,868
	<b>Segment liabilities</b>	<b>7,262,493</b>	<b>8,414,930</b>	<b>3,935,643</b>	<b>685,796</b>	<b>20,298,862</b>
	<i>of which amounts due to banks and clients</i>	7,262,493	8,414,930	1,534,334	74,763	17,286,520
	<b>Expenditure on property, plant and equipment and intangible assets</b>	<b>14,629</b>	<b>15,226</b>	<b>1,920</b>	<b>-</b>	<b>31,775</b>

## 52. Related-party transactions

As at December 31st 2021, Bank Ochrony Środowiska S.A. was the parent of Dom Maklerski BOŚ S.A., BOŚ Leasing–EKO Profit S.A., as well as MS Wind Sp. z o.o.

The National Fund for Environmental Protection and Water Management (NFOŚiGW) was the parent of the Bank.

The key management personnel are also considered to be related parties.

### **Transaction with the National Fund for Environmental Protection and Water Management, i.e., the main shareholder of the Bank**

As at December 31st 2021, the amount of funds provided by the NFOŚiGW for preferential loans under the Prosumpt program for the financing of purchase and installation of renewable energy sources was PLN 10,299 thousand (December 31st 2020: PLN 15,554 thousand).

In 2021 and 2020, the NFOŚiGW did not subsidise clients' interest payments.

NFOŚiGW is a party related to the State Treasury. The Bank enters into transactions with entities related to the State Treasury, mainly with entities operating in the public finance sector.

### **Transactions with related entities:**

#### **Dom Maklerski BOŚ S.A.**

The Bank's branches maintain current accounts and fixed-term deposit accounts of Dom Maklerski BOŚ S.A. Transactions in current accounts are primarily payments and cash withdrawals by the company's clients. As at the end of each day, free cash is placed in O/N deposits bearing interest at WIBOR rates.

The Bank provided a revolving working capital facility to Dom Maklerski BOŚ S.A.

The above transactions are temporary in nature and were executed due to the Bank's internal needs and on market terms.

#### **BOŚ Leasing - EKO Profit S.A.**

The Bank maintains current accounts and fixed-term deposit accounts of BOŚ Leasing - EKO Profit S.A. The Bank provided to the company investment facilities and loans for the purchase of lease receivables. IRS transactions were also concluded.

In 2021, the Bank was a party to rental contracts with the company concerning:

1. in Warsaw – a contract for sublease of office space from the Bank, at Al. Jana Pawła II 12, concluded on October 31st 2019, extended by Annex 2 of March 1st 2021 for a period until February 29th 2024;
2. in Gdańsk – a lease contract for premises, which expired on January 31st 2021 and will not be continued.

In 2021, BOŚ Leasing – EKO Profit S.A. concluded further agreements with the Bank for purchase of lease receivables with recourse. As at December 31st 2021, a total of 11 such agreements were in effect, and covered receivables from four counterparties for a total of PLN 108.7 million.

The above transactions and lease contracts were executed due to the Bank's internal needs and on an arm's length basis.

#### **MS Wind Sp. z o. o.**

The Bank maintains current accounts and term deposit accounts for MS Wind Sp. z o.o. The Bank provided to MS Wind Sp. z o.o. a facility to finance a wind farm project and entered into an IRS contract with the company.

As at December 31st 2021, the outstanding balance of the facility was PLN 19.2 million. Eighty per cent of the facility amount is hedged with the IRS contract for fixed interest rate.

The above transactions are temporary in nature and were executed due to the Bank's internal needs and on market terms.

**Data on transactions with the subsidiaries are presented in the tables below.**

As at December 31st 2021:

Item	Financial assets held for trading	Amounts due from clients	Investments in subsidiaries	Financial liabilities held for trading	Amounts due to clients	Provisions	Other liabilities	Contingent liabilities
<b>SUBSIDIARIES</b>								
Dom Maklerski BOŚ S.A.	-	36,584	138,461	-	2,202,743	275	227	43,078
BOŚ Leasing-EKO Profit S.A.	-	115,475	62,654	93	14,482	424	-	63,286
<b>INDIRECT SUBSIDIARIES</b>								
MS Wind sp. z o.o.	274	18,968	-	-	5,207	-	-	-
<b>Total</b>	<b>274</b>	<b>171,027</b>	<b>201,115</b>	<b>93</b>	<b>2,222,432</b>	<b>699</b>	<b>227</b>	<b>106,364</b>

As at December 31st 2020:

Item	Financial assets held for trading	Amounts due from clients	Investments in subsidiaries	Financial liabilities held for trading	Amounts due to clients	Provisions	Other liabilities	Contingent liabilities
<b>SUBSIDIARIES</b>								
Dom Maklerski BOŚ S.A.	510	35,431	134,324	-	1,399,314	449	148	44,071
BOŚ Leasing-EKO Profit S.A.	1,682	72,236	59,313	-	10,445	1,631	22	49,557
<b>INDIRECT SUBSIDIARIES</b>								
MS Wind sp. z o.o.	-	20,804	-	-	4,180	-	-	-
<b>Total</b>	<b>2,192</b>	<b>128,471</b>	<b>193,637</b>	<b>-</b>	<b>1,413,939</b>	<b>2,080</b>	<b>170</b>	<b>93,628</b>

# Income and expenses for the 12 months ended December 31st 2021:

Item	Interest and similar income	Interest expense and similar charges	Fee and commission income	Fee and commission expense	Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	Other income	Net impairment losses	Administrative expenses	Share of profit (loss) of equity-accounted entities
<b>SUBSIDIARIES</b>									
Dom Maklerski BOŚ S.A.	978	- 3,187	2,851	- 1		3	332	- 12	20,137
BOŚ Leasing - EKO Profit S.A.	2,018	- 4	38	-	- 465	443	1,804	- 52	1,430
<b>INDIRECT SUBSIDIARIES</b>									
MS Wind sp. z o.o.	514	- 3	60	-	- 793	-	603	-	-
<b>Total</b>	<b>3,510</b>	<b>- 3,194</b>	<b>2,949</b>	<b>- 1</b>	<b>- 1,258</b>	<b>446</b>	<b>2,739</b>	<b>- 64</b>	<b>21,567</b>

# Income and expenses for the 12 months ended December 31st 2020:

Item	Interest and similar income	Interest expense and similar charges	Fee and commission income	Fee and commission expense	Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	Other income	Net impairment losses	Administrative expenses	Share of profit (loss) of equity-accounted entities
<b>SUBSIDIARIES</b>									
Dom Maklerski BOŚ S.A.	961	- 2,639	2,541	-	-	1	- 419	- 13	30,865
BOŚ Leasing - EKO Profit S.A.	1,946	- 43	10	-	305	296	- 2,744	- 451	- 1,394
<b>INDIRECT SUBSIDIARIES</b>									
MS Wind sp. z o.o.	686	- 18	27	-	650	-	10	-	-
<b>Total</b>	<b>3,593</b>	<b>- 2,700</b>	<b>2,578</b>	<b>-</b>	<b>955</b>	<b>297</b>	<b>- 3,153</b>	<b>- 464</b>	<b>29,471</b>

## Loans to and deposits from members of the Management Board and the Supervisory Board of the Bank

As part of the operating activities, transactions with members of the management body and the key management personnel comprise mainly loans and deposits. The balances of individual items of the statement of financial position as at December 31st 2021 and December 31st 2020 as well as income and expenses for the 12 months ended December 31st 2021 and December 31st 2020 are presented below:

### Key management personnel

Item	December 31st 2021	December 31st 2020
Loans	297	354
Line-of-credit commitments	-	5
Deposits	739	2,311
<b>Total</b>	<b>1,036</b>	<b>2,670</b>

Item	December 31st 2021	December 31st 2020
Interest expense on deposits	1	21
Interest income on loans	2	3

The credit and deposit products were provided to the key management personnel on the same terms as those offered by the Bank to the general public.



## Remuneration of the key management personnel of the Bank

Supervisory Board	Remuneration		For serving on governing bodies of subordinated entities	
	paid for 2021	paid for 2020	paid for 2021	paid for 2020
Janina Goss	131	126	-	-
Andrzej Matysiak <sup>7</sup>	68	116	-	-
Leszek Banaszak <sup>2</sup>	133	25	-	-
Piotr Wróbel <sup>1</sup>	133	50	-	-
Marzena Koczuł <sup>10</sup>	-	21	-	-
Robert Czarnecki <sup>2</sup>	132	25	-	-
Przemysław Bednarski <sup>4</sup>	-	25	-	-
Marcin Jastrzębski <sup>3</sup>	133	43	-	-
Piotr Sadownik <sup>8</sup>	-	107	-	-
Emil Ślęzak <sup>13</sup>	161	75	-	-
Wojciech Wardacki <sup>11</sup>	93	181	-	-
Iwona Duda <sup>5</sup>	-	47	-	-
Ireneusz Purgacz	149	131	-	-
Radosław Rasała <sup>9</sup>	-	78	-	-
Paweł Sałek	152	131	-	-
Katarzyna Lewandowska <sup>6</sup>	-	66	-	-
Zbigniew Dynak <sup>12</sup>	69	-	-	-
<b>Total <sup>14</sup></b>	<b>1,354</b>	<b>1,247</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Member of the Supervisory Board from August 5th 2020

<sup>2</sup> Member of the Supervisory Board from October 19th 2020

<sup>3</sup> Member of the Supervisory Board from August 25th 2020

<sup>4</sup> Member of the Supervisory Board from August 5th 2020 to October 17th 2020

<sup>5</sup> Member of the Supervisory Board until May 12th 2020

<sup>6</sup> Member of the Supervisory Board until June 15th 2020

<sup>7</sup> Member of the Supervisory Board until October 19th 2020 and from June 23rd 2021

<sup>8</sup> Member of the Supervisory Board until November 6th 2020

<sup>9</sup> Member of the Supervisory Board until August 5th 2020

<sup>10</sup> Member of the Supervisory Board from October 19th 2020 to February 10th 2021 (including from December 21st 2020 to February 10th 2020, delegated to serve as Management Board member)

<sup>11</sup> Member of the Supervisory Board until June 23rd 2021

<sup>12</sup> Member of the Supervisory Board from June 23rd 2021

<sup>13</sup> From June 18th 2020 to November 9th 2020, delegated to serve as acting President of the Management Board

<sup>14</sup> All payments were short-term employee benefits.

The total amount of remuneration paid to members of the Supervisory Board in 2021 included remuneration of Supervisory Board members, reimbursement of overpaid social security contributions and PPK contributions paid by BOŚ S.A.

Management Board	Remuneration		For serving on governing bodies of subordinated entities	
	paid for 2021	paid for 2020	paid for 2021	paid for 2020
Wojciech Hann <sup>1</sup>	637	93	-	-
Bogusław Białowas <sup>2</sup>	181	653	-	-
Marzena Kocut <sup>5</sup>	540	16	-	-
Konrad Raczkowski <sup>3</sup>	-	89	-	-
Arkadiusz Garbarczyk	817	853	-	-
Emil Ślęzak <sup>4</sup>	-	254	-	-
Jerzy Zań	523	526	-	-
Robert Kasprzak <sup>6</sup>	454	-	-	-
<b>Total</b>	<b>3,152</b>	<b>2,484</b>	<b>-</b>	<b>-</b>

including:				
– short-term employee benefits;	2,664	2,024	-	-
– long-term employee benefits	-	-	-	-
– post-employment benefits	181	150	-	-
– termination benefits	-	-	-	-
– share-based payments (phantom shares)	307	310	-	-

<sup>1</sup> Member of the Management Board from November 9th 2020

<sup>2</sup> Member of the Management Board until June 17th 2020

<sup>3</sup> Member of the Management Board until June 18th 2019

<sup>4</sup> Member of the Management Board from June 18th to November 9th 2020

<sup>5</sup> Member of the Management Board from December 21st 2020

<sup>6</sup> Member of the Management Board from February 15th 2021

The total amount of remuneration paid to members of the Management Board of the Bank in 2021 included remuneration under management services contracts, post-employment benefits, and contributions to the Employee Capital Plan paid by BOŚ S.A.

## 53. Disposal, liquidation and merger of companies

The Bank did not divest, liquidate or merge any subsidiaries in 2021.

## 54. Dividends paid (aggregate or per share) separately for ordinary shares and other shares

No dividend was paid or declared in 2021. In 2020, the Bank incurred a loss.

## 55. 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 further information on the Compromise and Settlement Programme, see Note 3 'Compromise and Settlement Programme for residential mortgage-backed loans tied to foreign currency exchange rates'.

Pursuant to the Regulation of the Minister of Finance of March 11th 2022 on the waiver of income tax on certain income (revenue) from housing mortgages, the Bank's income corresponding to the equivalent of the amounts of housing mortgage loan receivables cancelled is not taxable for corporate income tax purposes.

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

### 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. The Bank monitors the impact of these events on its financial condition and the financial condition of its clients. As at the date of these financial statements, it was not possible to fully assess the effects of these events, but they had no negative impact on the Group as at that date.

As at December 31st 2021, the total amount of the Bank's credit exposure to customers from Ukraine was PLN 3.6 million. As at that date the Bank had no credit exposures to customers in Russia and Belarus.

The outbreak of the hostilities does not require any adjustments to the 2021 financial statements.

### Additional capital requirement

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. The additional add-on should consist entirely of Common Equity Tier 1 capital.

The PFSA's recommendation does not require any adjustments to the 2021 financial statements.

## 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 President of the Management Board	Signed with qualified digital signature
March 30th 2022	Robert Kasprzak	Vice President of the Management Board	Signed with qualified digital signature
March 30th 2022	Marzena Koczut	Vice President of the Management Board	Signed with qualified digital signature
March 30th 2022	Jerzy Zań	Vice President of the Management Board	Signed with qualified digital signature

Signature of the person in charge of bookkeeping:

March 30th 2022	Andrzej Kowalczyk	Director of the Accounting Department	Signed with qualified e-signature
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