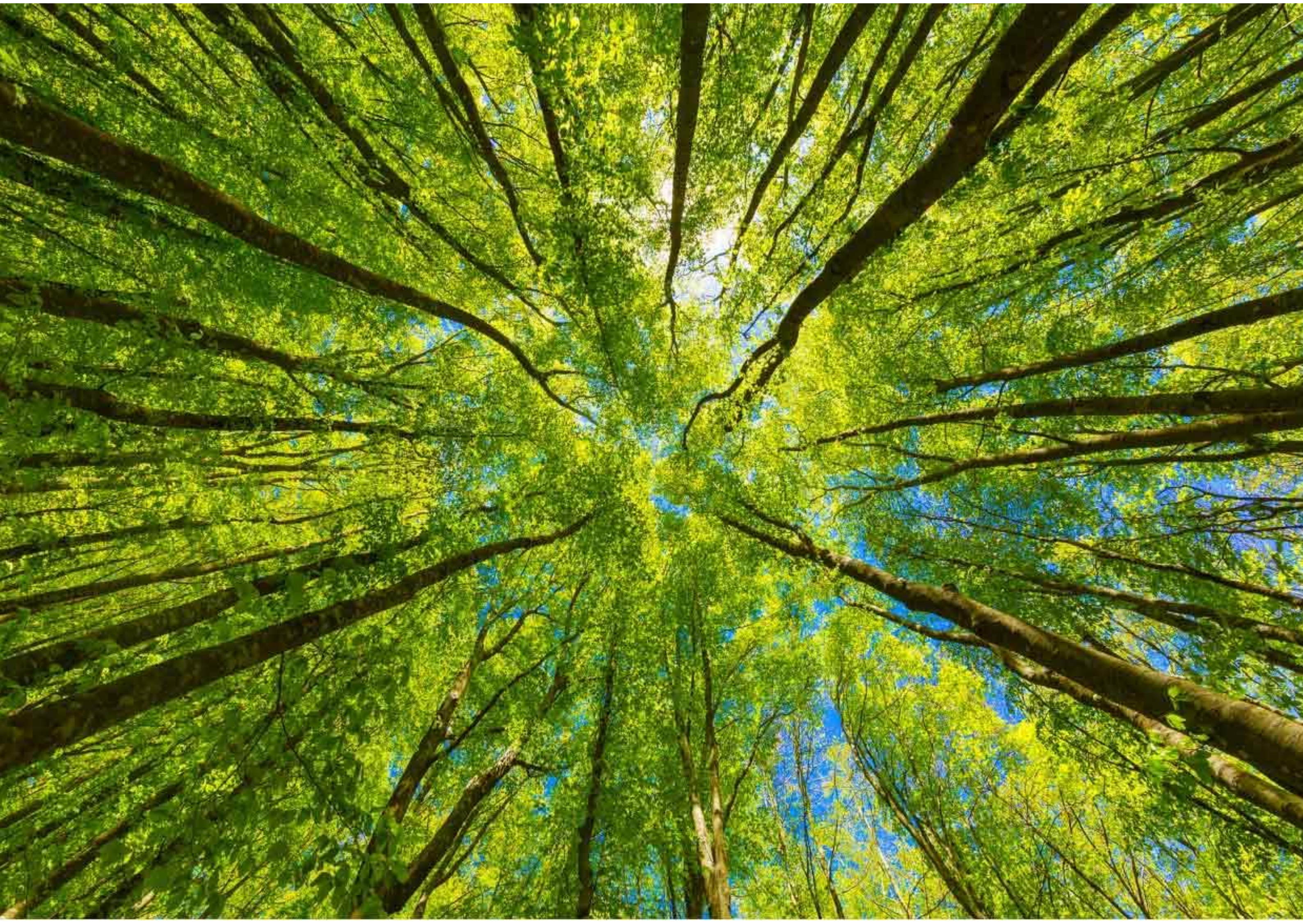

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK OCHRONY ŚRODOWISKA GROUP

FOR THE YEAR ENDED DECEMBER 31ST 2021

Warsaw, March 2022

Contents

Full-year consolidated statement of profit or loss of the BOŚ Group

Continuing operations	Note	for the year ended December 31st 2021	for the year ended December 31st 2020
Interest and similar income, including:		432,230	518,582
financial assets measured at amortised cost		382,201	447,816
assets measured at fair value through other comprehensive income		45,971	67,698
financial assets measured at fair value through profit or loss		4,058	3,068
Interest expense and similar charges, including:		- 56,145	- 147,602
financial liabilities measured at amortised cost		- 49,712	- 139,902
financial liabilities measured at fair value through profit or loss		- 6,433	- 7,700
Net interest income	8	**376,085**	**370,980**
Fee and commission income		181,742	171,918
Fee and commission expense		- 39,888	- 37,328
Net fee and commission income	9	**141,854**	**134,590**
Dividend income	10	6,730	6,262
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	11	67,633	74,461
Gain (loss) on investment securities	12	197	4,239
Gain (loss) on hedge accounting	13	764	- 2,038
Gain (loss) on foreign exchange transactions	14	25,300	26,396
Other income	15	35,083	20,612
Other expenses	16	- 43,798	- 28,091
Effect of legal risk of mortgage loans denominated in foreign currencies	17/35	- 20,783	- 353,010
Net impairment losses	18	- 114,094	- 163,793
Administrative expenses	19	- 395,702	- 376,361
Profit (loss) before tax		**79,269**	**- 285,753**
Income tax expense	20	- 31,813	- 21,181
Net profit (loss)		**47,456**	**- 306,934**
of which attributable to owners of parent		47,456	- 306,934
Earnings (loss) per share attributable to owners of parent during period (PLN)	21		
basic		0.51	-3.30
diluted		0.51	-3.30

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 consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Full-year consolidated statement of comprehensive income of the BOŚ Group

Continuing operations	for the year ended	
	December 31st 2021	December 31st 2020
Net profit (loss)	**47,456**	**-306,934**
Items that may be reclassified to profit or loss:	**- 94,581**	**20,403**
Fair value of financial assets measured at fair value through other comprehensive income, gross	- 116,767	25,189
Deferred tax	22,186	- 4,786
Items that will not be reclassified to profit or loss:	**- 250**	**- 229**
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
Total comprehensive income:	**- 47,375**	**-286,760**
of which attributable to owners of parent	- 47,375	-286,760

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

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Full-year consolidated statement of financial position of the BOŚ Group

Assets	Note	December 31st 2021	December 31st 2020
Cash and balances at central bank	22	361,581	266,552
Amounts due from banks	23	400,747	155,616
Financial assets held for trading, including:	24	155,705	113,134
equity securities		13,308	14,032
debt securities		5,321	805
derivative instruments		137,076	98,297
Derivative hedging instruments		9,121	-
Investment securities:	25	7,108,931	7,371,414
equity securities measured at fair value through other comprehensive income		85,483	85,480
debt securities measured at fair value through other comprehensive income		5,311,853	5,597,061
debt securities measured at amortised cost		1,582,366	1,535,239
debt securities measured at fair value through profit or loss		129,229	153,634
Amounts due from clients, including:	26	11,855,647	11,887,297
measured at amortised cost		11,841,536	11,861,783
measured at fair value through profit or loss		14,111	25,514
Intangible assets	28	112,861	110,902
Property, plant and equipment	29	84,082	84,651
Right of use – leases	30	78,538	67,796
Tax assets:		151,072	129,136
current		-	8,433
deferred	36	151,072	120,703
Other assets	31	267,455	319,331
Total assets		**20,585,740**	**20,505,829**

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

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Liabilities	Note	December 31st 2021	December 31st 2020
Amounts due to central bank and other banks	32	420,389	732,743
Financial liabilities held for trading, including:	24	99,659	103,316
equity securities		-	575
derivative instruments		99,659	102,741
Derivative hedging instruments	44	-	24,497
Amounts due to clients	33	17,007,863	16,560,715
Subordinated liabilities	34	369,107	368,996
Provisions	35	450,803	418,534
Tax liabilities:		8,810	1,103
current		8,335	856
deferred	36	475	247
Lease liabilities	37	81,170	71,229
Other liabilities	38	282,144	311,526
Total liabilities		**18,719,945**	**18,592,659**

Equity	Note	December 31st 2021	December 31st 2020
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT			
Common equity:	41	1,461,036	1,461,036
Share capital		929,477	929,477
Treasury shares		-1,292	-1,292
Share premium		532,851	532,851
Revaluation reserve	42	-26,962	67,869
Retained earnings	43	431,721	384,265
Total equity		**1,865,795**	**1,913,170**
Total equity and liabilities		**20,585,740**	**20,505,829**

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

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Full-year consolidated statement of changes in equity of the BOŚ Group

Item	Equity attributable to owners of the Bank								Total equity
	Common equity			Revaluation reserve	Retained earnings				
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	Other capital reserves	General risk fund	Undistributed profit (loss)	
As at January 1st 2021	**929,477**	**- 1,292**	**532,851**	**67,869**	**776,085**	**23,605**	**48,302**	**- 463,727**	**1,913,170**
Net profit (loss)	-	-	-	-	-	-	-	47,456	47,456
Other comprehensive income	-	-	-	**- 94,831**	-	-	-	-	- 94,831
Total comprehensive income	-	-	-	**- 94,831**	-	-	-	**47,456**	**- 47,375**
Profit distribution, including:	-	-	-	-	**- 377,457**	-	-	**377,457**	-
Offset of losses from prior years	-	-	-	-	- 374,421	-	-	374,421	-
Offset of 2018 issue costs against capital reserve	-	-	-	-	- 3,036	-	-	3,036	-
As at December 31st 2021	**929,477**	**- 1,292**	**532,851**	**- 26,962**	**398,628**	**23,605**	**48,302**	**- 38,814**	**1,865,795**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Item	Equity attributable to owners of the Bank								Total equity
	Common equity			Revaluation reserve	Retained earnings				
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	Other capital reserves	General risk fund	Undistributed profit (loss)	
As at January 1st 2020	**929,477**	**- 1,292**	**532,851**	**47,695**	**694,403**	**23,605**	**48,302**	**- 75,111**	**2,199,930**
Net profit (loss)	-	-	-	-	-	-	-	- 306,934	- 306,934
Other comprehensive income	**-**	**-**	**-**	20,174	-	-	-	-	20,174
Total comprehensive income	**-**	**-**	**-**	**20,174**	**-**	**-**	**-**	**- 306,934**	**- 286,760**
Profit distribution, including:	**-**	**-**	**-**	**-**	**81,682**	**-**	**-**	**- 81,682**	**-**
Transfer of net profit to reserves	-	-	-	-	81,682	-	-	- 81,682	-
As at December 31st 2020	**929,477**	**- 1,292**	**532,851**	**67,869**	**776,085**	**23,605**	**48,302**	**- 463,727**	**1,913,170**

There were no non-controlling interests in 2020 and 2021.

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

(amounts in PLN thousand)

Full-year consolidated statement of cash flows of the BOŚ Group

Indirect method	for the year ended	
	December 31st 2021	December 31st 2020
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Profit (loss) before tax	**79,269**	**-285,753**
Total adjustments:	**1,118,636**	**1,252,781**
Amortisation/depreciation	55,843	52,905
Interest income on investing activities	-49,988	-54,758
Gain (loss) on investing activities	3	30
Interest income on financing activities	16,270	16,384
Dividends received:	-6,730	-6,262
on securities held for trading	203	57
on investment securities	6,527	6,205
Change in:		
amounts due from banks	66,303	-26,769
assets on securities held for trading	-3,792	49,808
assets and liabilities from measurement of derivative and hedging financial instruments	-75,479	36,845
investment securities	912,476	-1,026,215
amounts due from clients	31,650	116,497
other assets and income tax	60,556	-132,979
amounts due to central bank and other banks	-312,354	137,076
amounts due to clients	447,148	1,645,734
liabilities arising from securities held for trading	-575	575
provisions	31,959	360,586
other liabilities and income tax	-29,669	132,252
Income tax paid	-31,715	-55,190
Net cash flows from (used in) operating activities	**1,197,905**	**967,028**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Inflows	**73,473**	**57,653**
Cash receipts from sale of property, plant, and equipment	17	164
Cash receipts from redemption of securities measured at amortised cost	28,287	-
Interest income on securities measured at amortised cost	45,169	57,489
Outflows	**-113,251**	**-198,925**
Payments for acquisition of securities measured at amortised cost	-70,595	-160,586
Payments for acquisition of intangible assets	-29,433	-18,241
Payments for acquisition of property, plant and equipment	-13,223	-20,098
Net cash flows from (used in) investing activities	**-39,778**	**-141,272**
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Outflows	**-32,032**	**- 33,839**
Interest paid on bonds issued by the Group, including:	-12,036	- 14,440
subordinated bonds	-12,036	- 14,440
Lease payments, IFRS 16	-19,996	- 19,399
Net cash flows from (used in) financing activities	**-32,032**	**- 33,839**
TOTAL NET CASH FLOWS	**1,126,095**	**791,917**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**2,479,832**	**1,687,915**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**3,605,927**	**2,479,832**
Restricted cash and cash equivalents	295,202	31,408

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

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Notes to the full-year consolidated financial statements

1. General information – Bank Ochrony Środowiska S.A. and the Bank Ochrony Środowiska S.A. Group

1.1. Bank Ochrony Środowiska S.A.

Name of the reporting entity or other identification data	Bank Ochrony Środowiska S.A. Group
Explanation of changes to the name of the reporting entity or other identification data since the end of the previous reporting period	-
Registered office	ul. Żelazna 32, 00-832 Warsaw
Legal form	Joint Stock Company (*spółka akcyjna*)
Country of registration	Poland
Address	00-832 Warsaw, ul. Żelazna 32
Principal place of business	Poland
Principal business activity	The Bank's primary objective is to effectively manage the shareholders' equity and clients' funds, 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.
Name of the parent	Bank Ochrony Środowiska S.A.
Name of the ultimate parent of the group	Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (National Fund for Environmental Protection and Water Management)

Bank Ochrony Środowiska S.A. (the "Bank", "BOŚ S.A.", the "Company"), with its registered office at ul. Żelazna 32, 00-832 Warsaw, was established by Decision No. 42 of the Governor of the National Bank of Poland No. 42 of 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 mission: We support green transition in an innovative and effective manner.

The Bank pursues its mission mainly by:

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

- 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.

The Bank's vision: We provide comprehensive financing for green transition by offering unique products, dedicated experts and a variety of financial instruments.

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.

On March 30th 2022, these full-year consolidated financial statements of the Group were authorised by the Management Board of the parent for issue on the Warsaw Stock Exchange on March 31st 2022.

1.2. The Group – consolidated entities

Consolidated subsidiaries of the Group and the consolidation method in 2021:

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

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

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

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

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Additional information on the Group companies as at December 31st 2021:

Subordinated entities	Income*\	Number of employees		Profit or loss before tax	Income tax	Financial support received**\
		full-time	employees			
Direct subsidiaries						
Dom Maklerski Banku Ochrony Środowiska S.A.	124,060	253.6	259	25,715	5,578	-
BOŚ Leasing - EKO Profit S.A.	16,124	20	20	-509	-78	-
Indirect subsidiary (subsidiary of BOŚ Leasing - Eko Profit S.A.)						
MS Wind sp. z o. o.	8,830	1	2	5,207	1,136	-

*\ Income defined as net interest income, net commission income, net result on financial instruments, other income, in PLN thousand.
** Financial support from public funds, in particular under the Act of February 12th 2009 on granting by the State Treasury support to financial institutions (Dz. U. of 2014, item 158).

1.3. Composition of the Management Board and the 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 Koczut, 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 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 Ślązak, 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
- Mr Paweł Sałek, Secretary of the Supervisory Board

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

In 2021, the composition of the Supervisory Board changed as follows:
1. on February 10th 2021, Marzena Koczut, following her appointment as Vice President of the Management Board, tendered her resignation as member of the Supervisory Board.
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 Ślązak 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. 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. Effective January 31st 2022, the Bank launched the Programme on the terms proposed by the Chairman of the PFSA.

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.

3. 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.

4. Statement of accounting policies

4.1. Basis of preparation and statement of compliance

The full-year consolidated financial statements of the Group include:

- Consolidated statement of profit or loss for the 12 months ended December 31st 2021 and comparative data for the 12 months ended December 31st 2020,
- Consolidated statement of comprehensive income for the 12 months ended December 31st 2021 and comparative data for the 12 months ended December 31st 2020,
- Consolidated statement of financial position as at December 31st 2021 and comparative data as at December 31st 2020,
- Consolidated statement of changes in equity for the 12 months ended December 31st 2021 and comparative data for the 12 months ended December 31st 2020,
- Consolidated 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 consolidated 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).

Dom Maklerski BOŚ S.A., BOŚ Leasing - EKO Profit S.A. and MS Wind Sp. z o.o. prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

These consolidated financial statements of the Group 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 4.2.

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

4.2. 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 consolidated statement of profit or loss of the Group

Continuing operations	Data in the issued financial statements for the 12 months ended December 31st 2020	Adjustment due to presentation change	Adjusted data in these financial statements for the 12 months ended December 31st 2020
Interest and similar income, including:	518,582	-	518,582
financial assets measured at amortised cost	447,816	-	447,816
assets measured at fair value through other comprehensive income	67,698	-	67,698
financial assets mandatorily measured at fair value through profit or loss	3,068	-	3,068
Interest expense and similar charges, including:	- 147,602	-	- 147,602
financial liabilities measured at amortised cost	- 139,902	-	- 139,902
financial liabilities mandatorily measured at fair value through profit or loss	- 7,700	-	- 7,700
Net interest income	**370,980**	**-**	**370,980**
Fee and commission income	171,918	-	171,918
Fee and commission expense	- 37,328	-	- 37,328
Net fee and commission income	**134,590**	**-**	**134,590**
Dividend income	6,262	-	6,262
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	74,461	-	74,461
Gain (loss) on investment securities	4,239	-	4,239
Gain (loss) on hedge accounting	- 2,038	-	- 2,038
Gain (loss) on foreign exchange transactions	26,396	-	26,396
Other income	20,623	- 11	20,612
Other expenses	- 28,091	-	- 28,091
Effect of legal risk of mortgage loans denominated in foreign currencies	- 353,021	11	- 353,010
Net impairment losses	- 163,793	-	- 163,793

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Administrative expenses	- 376,361	-	- 376,361
Profit before tax	**- 285,753**	**-**	**- 285,753**
Income tax expense	- 21,181	-	- 21,181
Net profit	**- 306,934**	**-**	**- 306,934**

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

IFRS	Amendment	Effective as of	Effect on the Bank
Amendment to IFRS 16: *Covid-19-Related Rent Concessions beyond 30 June 2021*	The amendments extend the scope of amendments to IFRS 16: *Covid-19-Related Rent Concessions* (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 partcial 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 *Insurance Contracts – Deferral of IFRS 19*	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.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

4.4. 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 7.3 for details). The Bank's liquidity is adequate and exceeds the regulatory requirements (see Note 7.2.1 for details).

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.

4.5. Consolidation

These consolidated financial statements include financial data of Bank Ochrony Środowiska S.A. and financial data of the subsidiaries, prepared for the year ended December 31st 2021. The financial statements of the subsidiaries have been prepared on the basis of uniform accounting policies applied to transactions and economic events of similar nature and for the same reporting period as the financial statements of the parent.

All significant balances and transactions between the Group companies, including unrealized gains arising from transactions within the BOŚ Group, have been fully eliminated. Unrealized losses are eliminated unless they present evidence of impairment.

Subsidiaries are consolidated from the date when the Group obtains control of them and cease to be consolidated when the control is lost. Control by the parent is exercised over an entity when the parent:

1. exercises power over the investee,
2. is exposed to or has rights to variable returns from its exposure to the entity,
3. has the ability to use its power over the investee to affect the amount of its returns.

The Group reviews its control of other entities if there is an indication of change in one or more of the conditions of control referred to above.

If the Group holds less than a majority of voting rights in an investee, but the voting rights it holds are sufficient to enable it to unilaterally direct the material activities of that investee, it means that it exercises power over that investee. When assessing whether the voting rights in an entity are sufficient as a source of power, the Group considers all relevant circumstances, including:

1. the size of its holding of voting rights relative to the size and dispersion of other voting rights holdings;
2. the potential voting rights held by the Company, other shareholders or other parties,
3. the rights based on other contractual arrangements, as well as
4. additional circumstances, which may prove that the Company either does or does not have the possibility of directing significant activities at the time of decision making, including the voting patterns observed during the previous meetings of shareholders.

As at December 31st 2021, there were no entities in which the Bank holds fewer than a majority of the voting rights and also exercises control.

Changes in share ownership by the parent which do not result in loss of control over the subsidiary are recognized as equity transactions. In such cases, the Group adjusts the carrying amount of controlling and non- controlling interests in order to reflect the changes in the relative share of the Group in the subsidiary. Any differences between the amount of the adjustment to non-controlling interests and the fair value of the consideration paid or received are charged to equity and attributed to owners of the parent.

If the Group loses control of a subsidiary, a gain or loss is recognised in the statement of profit or loss, calculated as the difference between the aggregate amount of consideration received and the fair value of the retained interest, and the original carrying amount of the assets (including goodwill) and liabilities of the subsidiary and non-controlling interests. All amounts related to that subsidiary, initially recognised in other comprehensive income, are accounted for as if the BOŚ Group directly disposed of the corresponding assets or liabilities of the subsidiary (i.e., they are transferred to profit or loss or to another component of equity provisions, as prescribed by provisions of the relevant IFRS). The fair value of investment held in a former subsidiary at the date when control is lost is treated as the fair value at initial recognition in accordance with IFRS 9.

4.6. 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 Group identified the following operating segments:

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

The Group's activities are not geographically diversified. For detailed information on segment reporting by the Group, see Note 50.

4.7. 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 Group operates.
The Polish złoty is the functional currency of the Group.

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.

4.8. 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 Group 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.

4.9. 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 Group 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.

4.10. Recognition of banc assurance income and expense

The Group recognises and accounts for income and expenses from insurance products in accordance with economic substance of the products. Due to the economic substance, the Group 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 Group 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 Group 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 Group exclusively with a financial instrument, i.e., the client cannot purchase from the Group 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 Group 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 Group 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 Group-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 Group receives consideration for performing activities/services resulting from the sold insurance product or if performance of such activities/services is probable, the Group 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 Group over a specified period of time, the Group 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.

4.11. 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 Group decided to continue to apply IAS 39 to hedge accounting.

The Group 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 Group.

The Group 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 Group'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 Group 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 the BOŚ Group.

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

The Group 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 Group 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 Group 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 Group does not apply cash flow hedge accounting.

4.12. Financial assets and liabilities

Initial recognition

The Group 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 Group 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 Group 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. Financial assets of the Group are classified into 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 Group'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 Group's key management and presented in 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 Group'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	SPPI test 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 Group 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 Group 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 the statement of profit or loss 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 Group 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 Group 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 Group 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 financial commitments in the Polish and in foreign currencies (including currency exchange differences) is recognised as the Group'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 Group 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 Group 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 Group's balance sheet.

Securities borrowed by the Group 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 Group measures expected credit losses over the entire life of those assets.

4.13. 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 Group does not carry assets held for sale.

4.14. Intangible assets

Goodwill

Following initial recognition goodwill is carried at cost less cumulative impairment losses. Impairment testing is performed every year. In addition, an assessment is made at each reporting date to determine whether there is any indication that goodwill may be impaired.

The Group assesses whether on the reporting date there are no premises that would cause the carrying amount of goodwill to be higher than its recoverable amount. To this end, the Group prepares an impairment test for goodwill every year, irrespective of whether there is any indication of impairment. The test is prepared in accordance with IAS 36.

The recoverable amount is estimated based on the value in use of cash-generating units (CGUs) that have been allocated to goodwill.

Value in use is the present value of the future cash flows expected to be derived from CGUs. The value in use takes into account the residual value of CGUs. The residual value of a CGU is calculated by extrapolating cash flow projections beyond the forecast period using a specified growth rate.

Projections of future cash flows cover a period of 5 years and are based on:

1. historical data reflecting the CGU's potential to generate cash flows,
2. forecasts of the statement of financial position and statement of profit or loss for the period covered by the forecast,
3. assumptions included in the budget of the Group,
4. analysis of the reasons for the discrepancy between past cash flow projections and actual cash flows.

The present value of future flows is calculated using an appropriate discount rate, taking into account the risk-free rate, the risk premium, the low capitalisation premium and the specific risk premium.

The present value of future flows is compared to the carrying amount (as at the date of the test) for the sum of: goodwill and the carrying amount of the CGU's assets, excluding the deferred tax portion.

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 Group recognises expenditure on intangible assets incurred in the development phase of projects carried out internally only if the Group 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.

4.15. 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 Group 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.

4.16. Leases

The Group 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 Group classifies lease contracts as finance leases or operating leases.

The Group 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 Group, 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 Group 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 Group does not recognise right-of-use assets asset 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 Group determines the non-cancellable lease term, taking into account the period covered by the extension option, if the Group assumes the option will be exercised, and by the termination option if the Group assumes that it will not be exercised.

The Group 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 Group 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 Group 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 Group 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 Group 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.

4.17. Deferred income tax

For the purposes of these financial statements, deferred tax is calculated using the balance-sheet liability method.

The Group 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 Group 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.

4.18. 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.

There are no foreclosed assets in the Group.

4.19. 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 Group in future periods. Accrued expenses and deferred income are disclosed in the statement of financial position as other liabilities.

4.20. Provisions for employee benefits

The Group 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.

4.21. Provisions

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

1. as at the reporting date, the Group 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.

4.22. **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 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.

4.23. 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.

4.24. Brokerage business

Dom Maklerski BOŚ S.A. acts as a custodian for clients' securities accounts. These assets have not been recognised in the consolidated financial statements, because the Group does not control them, does not benefit from them and does not incur any risk due to these assets.

4.25. 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 *Insurance Contracts*, amendments to IFRS 17	IFRS 17 *Insurance Contracts* will replace IFRS 4 *Insurance Contracts*, 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). The purpose of the amendments is to: – reduce costs by simplifying some of the standard requirements; - facilitate clarification of financial results; and – 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.	January 1st 2023 / November 19th 2021	The amendment will have no material effect on the financial statements.
Amendments to IFRS 3 *Business Combinations;* Amendments IAS 16 *Property, Plant and Equipment;* Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* *Annual Improvements to IFRS Standards 2018–2020*	The amendments to IFRS 3 *Business Combinations* update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments to IAS 16 *Property, Plant and Equipment* 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. The amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specify what costs an entity considers when assessing whether a contract will result in a loss. The Annual Improvements make minor changes to IFRS 1 *First-time Adoption of IFRS*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture* and the Illustrative Examples accompanying IFRS 16 *Leases*.	January 1st 2022 / June 28th 2021	The amendment will have no material effect on the financial statements.

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4.26. 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 *Insurance Contracts: First-time Adoption of IFRS 17 and IFRS 9 – Comparative Information*	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. IFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after January 1st 2023.	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.
Amendments to IAS 1 *Presentation of Financial Statements – Classification of Liabilities*	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 *Definition of Accounting Estimates*	In the amendment to IAS 8 *Definition of Accounting Estimates*, 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 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.

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Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*	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. 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.	January 1st 2023 / Not specified	The amendment will have no material effect on the financial statements.
IFRS 14 *Regulatory Deferral Accounts*	(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:*	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, 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.

5. Corrections of prior period errors

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

6. Significant estimates and judgments

The preparation of the Group'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 Group 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 Group'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.

6.1. Financial assets

Impairment of amounts due from clients

The Group 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 Group operates.

The models used to estimate allowances for expected credit losses constructed in accordance with IFRS 9 consist of elements for which the Group uses all available historical information and forecasts. When using these models, the Group 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 Group'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.

Because of the outbreak of the COVID-19 pandemic and the risk of deterioration in the quality of the Group's loan portfolio, a decision was made to make an expert adjustment to the PD parameter to reflect the sensitivity of individual sectors of the economy to the COVID-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.

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 Group.

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 Group 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 Group 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 Group, 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.

6.2. 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 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 48.

6.3. 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.

6.4. Scope of consolidation

The preparation of the consolidated financial statements requires judgment as to the nature of the involvement in other entities in which the Bank invested. In particular, exercising of control over another economic entity is subject to such judgment.

As disclosed in Note 1.2. the consolidated entities are Dom Maklerski BOŚ S.A., BOŚ Leasing–EKO Profit S.A., and MS Wind sp. z o.o. These are entities in which the Bank holds, directly or indirectly, 100% of equity interests, and the conditions for exercising control are met.

The Bank holds a 29.48% ownership interest in Wodkan S.A. The members of the management board of Wodkan S.A. were not recommended to theri respective positions by the Bank. According to its judgement, the Bank does not exercise control over Wodkan S.A., and the company is not consolidated in the Group's consolidated financial statements. Also, the Bank has no significant influence on the activities of Wodkan S.A. There are no material transactions between the Bank and Wodkan S.A., in particular the Bank does not finance its operations, does not actively participate in the development of its strategy and day-to-day operations, and the Bank's employees do not hold any management positions at Wodkan S.A. under the authority of the Bank.

6.5. 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 Group 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.

6.6. 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 17 'Effect of legal risk of mortgage loans denominated in foreign currencies' and Note 35 'Provisions' for factors and circumstances that could have a material impact on the amount of the legal risk provision.

6.7. 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.

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7. Risk management

7.1. Credit risk

Risk management functions are concentrated directly at the Bank, as the Bank's assets represented the predominant part of the assets of the BOŚ Group as at December 31st 2021.

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 BOŚ Group 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 BOŚ Group, remain the most vulnerable to effects of the pandemic.

Credit risk management methods

The Group 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 Group 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 Group 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 Group 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 Group 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 Group identified a situation that could jeopardize timely debt repayment, the Group used reminders and carried out restructuring procedures using appropriate IT tools.
The Group 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 Group 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 Group 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 Group 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 Group 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 Group was guided by the principle of prudent valuation.

When selecting the form of security, the Group took into account:
1. adequate protection of the Group'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 Group 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 supervisory requirements .

The Group 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 DtI/DStI 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 Group.

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 Group 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 Group proposed financing structures that ensured risk sharing between borrowers and the Group, mainly through involvement of the borrowers' own funds adequate to the scale of the risk.

Impact of the COVID-19 pandemic on the Group'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 Group 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 Group 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 Group 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 Group 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 Group managed concentration risk in accordance with the rules set out in the Concentration Risk Management Policy.

The Group 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 Group 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 for limits used by the Bank to determine the acceptable level of appetite for credit risk.

In particular, the Group 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 Group 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.

7.1.1. Methodology for recognising impairment of credit exposures

At each reporting date, the Group 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 Group 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 Group 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 exposures expected cash flows which can be reliably estimated.

As of January 1st 2021, the Group 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 Group 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 Group considers the following as evidence 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 Group 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 Group 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 moratories (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 Group.

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 Group 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 Group,
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 art of the group approach, the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group's expense or income arising from the allowances and provisions.

The methodology and assumptions adopted by the Group 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.

7.1.2. 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	11,671	30,472
A-	280	28,135
BBB+	10,212	3,016
BBB-	969	538
unrated		
	14,509	14,108
Total	**400,747**	**155,616**

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
Total		**14,509**		**14,108**

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7.1.3. Amounts due from clients

Item	December 31st 2021	December 31st 2020
AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST		
Amounts due from clients without indications of impairment, including:	11,146,432	10,983,679
exposures without significant credit risk increase since initial recognition (Bucket 1)	9,883,695	8,582,957
of which: wind farms	929,288	-
exposures with significant increase in risk since initial recognition (Bucket 2)	1,262,737	2,400,722
of which: wind farms	49,790	1,167,101
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	22,382	337,120
of which: wind farms	12,842	219,641
Amounts due from clients with indication of impairment, impaired (Bucket 3)	1,757,830	1,709,690
of which: wind farms	-	13,434
Total amounts due from clients measured at amortised cost (gross)	**12,926,644**	**13,030,489**
Impairment losses on:		
amounts due from clients – (Bucket 1)	- 88,097	- 84,772
of which: wind farms	- 12,205	-
amounts due from clients – (Bucket 2)	- 80,534	- 126,123
of which: wind farms	- 1,304	- 30,947
amounts due from clients – (Bucket 3) with no indication of impairment	- 588	- 10,245
of which: wind farms	- 504	- 8,734
amounts due from clients – (Bucket 3) with indication of impairment	- 953,407	- 981,869
of which: wind farms	-	- 1,578
Total impairment losses	**- 1,122,626**	**- 1,203,009**
Total amounts due from clients measured at amortised cost (net)	**11,804,018**	**11,827,480**
AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Fair value, including:	14,111	25,514
of which: wind farms	-	-
Total amounts due from clients measured at fair value through profit or loss	**14,111**	**25,514**
Security deposits	32,768	31,704
Other amounts due from clients	4,750	2,599
Total amounts due from clients	**11,855,647**	**11,887,297**

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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
Amounts due from clients measured at amortised cost					
Amounts due from clients without indications of impairment, including:	8,041,552	3,104,880	2,575,685	529,195	11,146,432
exposures without significant credit risk increase since initial recognition (Bucket 1)	6,957,132	2,926,563	2,423,287	503,276	9,883,695
of which: wind farms	929,288	-	-	-	929,288
exposures with significant increase in risk since initial recognition (Bucket 2)	1,084,420	178,317	152,398	25,919	1,262,737
of which: wind farms	49,790	-	-	-	49,790
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	18,393	3,989	2,732	1,257	22,382
of which: wind farms	12,842	-	-	-	12,842
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,275,958	481,872	356,593	125,279	1,757,830
individually assessed	1,241,155	105,197	90,382	14,815	1,346,352
of which: wind farms	-	-	-	-	-
Total amounts due from clients measured at amortised cost (gross)	**9,335,903**	**3,590,741**	**2,935,010**	**655,731**	**12,926,644**

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December 31st 2021	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Impairment losses on:					
amounts due from clients – (Bucket 1)	-69,694	-18,403	-9,357	-9,046	-88,097
of which: wind farms	-12,205	-	-	-	-12,205
amounts due from clients – (Bucket 2)	-64,860	-15,674	-10,831	-4,843	-80,534
of which: wind farms	-1,304	-	-	-	-1,304
amounts due from clients – (Bucket 3) with no indication of impairment	-569	-19	-11	-8	-588
of which: wind farms	-504	-	-	-	-504
amounts due from clients – (Bucket 3) with indications of impairment, including:	-671,404	-282,003	-186,718	-95,285	-953,407
individually assessed	-646,537	-54,331	-48,396	-5,935	-700,868
of which: wind farms	-	-	-	-	-
Total impairment losses	**-806,527**	**-316,099**	**-206,917**	**-109,182**	**-1,122,626**
Total amounts due from clients measured at amortised cost (net)	**8,529,376**	**3,274,642**	**2,728,093**	**546,549**	**11,804,018**
Amounts due from clients measured at fair value through profit or loss					
Fair value	13,460	651	257	394	14,111
of which: wind farms	-	-	-	-	-
Total amounts due from clients measured at fair value through profit or loss	**13,460**	**651**	**257**	**394**	**14,111**
Security deposits	32,768	-	-	-	32,768
Other amounts due from clients	2,879	1,871	-	1,871	4,750
Total amounts due from clients	**8,578,483**	**3,277,164**	**2,728,350**	**548,814**	**11,855,647**

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December 31st 2020	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Amounts due from clients measured at amortised cost					
Amounts due from clients without indications of impairment, including:	7,679,433	3,304,246	2,719,897	584,349	10,983,679
exposures without significant credit risk increase since initial recognition (Bucket 1)	5,481,028	3,101,929	2,556,871	545,058	8,582,957
exposures with significant increase in risk since initial recognition (Bucket 2)	2,198,405	202,317	163,026	39,291	2,400,722
of which: wind farms	1,167,101	-	-	-	1,167,101
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	333,503	3,617	2,160	1,457	337,120
of which: wind farms	219,641	-	-	-	219,641
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,217,260	492,430	309,245	183,185	1,709,690
individually assessed	1,162,829	120,045	100,001	20,044	1,282,874
of which: wind farms	13,434	-	-	-	13,434
Total amounts due from clients measured at amortised cost (gross)	**9,230,196**	**3,800,293**	**3,031,302**	**768,991**	**13,030,489**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

December 31st 2020	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Impairment losses on:					
amounts due from clients – (Bucket 1)	-69,263	-15,509	-5,340	-10,169	-84,772
amounts due from clients – (Bucket 2)	-104,433	-21,690	-13,243	-8,447	-126,123
of which: wind farms	-30,947	-	-	-	-30,947
amounts due from clients – (Bucket 3) with no indication of impairment	-10,234	-11	-4	-7	-10,245
of which: wind farms	-8,734	-	-	-	-8,734
amounts due from clients – (Bucket 3) with indications of impairment,	-682,510	-299,359	-166,842	-132,517	-981,869
individually assessed	-640,208	-63,600	-54,670	-8,930	-703,808
of which: wind farms	-1,578	-	-	-	-1,578
Total impairment losses	**-866,440**	**-336,569**	**-185,429**	**-151,140**	**-1,203,009**
Total amounts due from clients measured at amortised cost (net)	**8,363,756**	**3,463,724**	**2,845,873**	**617,851**	**11,827,480**
Amounts due from clients measured at fair value through profit or loss					
Fair value	24,322	1,192	427	765	25,514
of which: wind farms	-	-	-	-	-
Total amounts due from clients measured at fair value through profit or loss	**24,322**	**1,192**	**427**	**765**	**25,514**
Security deposits	31,704	-	-	-	31,704
Other amounts due from clients	2,599	-	-	-	2,599
Total amounts due from clients	**8,422,381**	**3,464,916**	**2,846,300**	**618,616**	**11,887,297**

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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:

Rating 1 Highest credit quality
Rating 2 Very high credit quality
Rating 3 High credit quality
Ratings 4-5 Very good credit quality
Ratings 6-7 Good credit quality
Ratings 8-9 Satisfactory credit quality
Ratings 10-11 Average and poor credit quality
Ratings 12-13 Very weak credit quality
Ratings 14-16 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)	94,338	122,542
	(6-7)	1,040,463	1,197,500
	(8-9)	3,074,179	2,961,831
	(10-11)	3,120,734	2,523,024
	(12-13)	448,750	643,312
	(14-16)	7,613	-
	unrated	235,450	145,985
Total amounts due from institutional clients		**8,029,035**	**7,594,496**
Amounts due from retail clients	unrated	**3,009,390**	**3,197,672**
Total amounts due from retail clients		**3,009,390**	**3,197,672**
Total		**11,038,425**	**10,792,168**

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.

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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	4,497	78,392	82,889
from 31 to 60 days	7,489	14,707	22,196
from 61 to 90 days	100	2,391	2,491
over 90 days	1,059	-	1,059
Total	**13,145**	**95,490**	**108,635**

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
Total	**63,249**	**106,574**	**169,823**

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	1,275,958	1,217,260
Amounts due from retail clients	481,872	492,430
Total	**1,757,830**	**1,709,690**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Rating/scoring groups of amounts due from Group 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)	107,909	148,259
	(6-7)	1,047,769	1,229,453
	(8-9)	3,128,574	3,063,796
	(10-11)	3,261,097	2,767,191
	(12-13)	672,555	985,144
	(14-16)	837,231	872,265
	unrated	286,720	188,108
Total amounts due from institutional clients		**9,349,363**	**9,254,518**
Amounts due from retail clients	unrated	3,591,392	3,801,485
Total amounts due from retail clients		**3,591,392**	**3,801,485**
Total		**12,940,755**	**13,056,003**

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 Group 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 Group 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 Group 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 Group was to establish a legal collateral, if required, before facility disbursement.

The Group 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 Group 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 Group would carry out portfolio revaluation on a regular basis, using statistical methods.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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 Group classifies repossessed collateral as 'foreclosed assets' and measures them in accordance with the accounting policies specified in the Note 4.18 to the consolidated financial statements.

Prior to foreclosure, it is mandatory that the Group 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 Group. 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 of the BOŚ Group to wind farms

Part of the Group'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 Group's exposure to this group of clients as at December 31st 2021 was PLN 991.9 million compared with PLN 1,400.2 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 situation, are identified by the Group 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 Group 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 Group 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 Group 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 Group, 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 Group's total exposure to the clients was PLN 79.9 million, representing 8.1% of the total exposure in the wind farm portfolio.

The Group monitors of 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, BOŚ S.A. did not act as a co-respondent in any of the pending court disputes with Energa Obrót S.A., thus the Group 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	December 31st 2020
Amounts due from clients measured at amortised cost		
Amounts due from clients with no indication of impairment for which there has been no significant increase in risk since initial recognition (Bucket 1)	929,288	-
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	1,167,101
Amounts due from clients with indication of impairment but not impaired given the estimated cash flows (Bucket 3)	12,842	219,641
Amounts due from clients with indication of impairment, impaired (Bucket 3)	-	13,434
Total amounts due from clients measured at amortised cost (gross)	**991,920**	**1,400,176**
Impairment losses on:		
amounts due from clients – (Bucket 1)	- 12,205	-
amounts due from clients – (Bucket 2)	- 1,304	- 30,947
amounts due from clients – (Bucket 3) with no indication of impairment	- 504	- 8,734
amounts due from clients – (Bucket 3) with indication of impairment	-	- 1,578
Total impairment losses	**- 14,013**	**- 41,259**
Total amounts due from clients measured at amortised cost (net)	**977,907**	**1,358,917**
Total amounts due from WIND FARM clients	**977,907**	**1,358,917**

As at December 31st 2021, the share of the wind farm portfolio in the Group's total (gross) institutional loans measured at amortised cost was 10.6%, representing 7.7% of the total lending portfolio; in absolute terms, the wind farm portfolio was PLN 991.9 million.

As at December 31st 2021, the provision coverage ratio for Bucket 3 assets in the institutional lending segment was 51.9%, 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 1.29%.

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7.1.4. Debt securities

Securities by rating assigned to issuers

December 31st 2021	State Treasury	NBP	Banks	Public finance	Other financial institutions	Corporate	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	1,121	3,337,954
Total	**2,840,160**	**2,899,014**	**665,635**	**91,056**	**531,783**	**1,121**	**7,028,769**

December 31st 2020	State Treasury	NBP	Banks	Public finance	Other financial institutions	Corporate	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	805	2,632,893
Total	**3,584,451**	**2,179,952**	**834,879**	**147,739**	**538,913**	**805**	**7,286,739**

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:

5 Very good credit quality
6-7 Good credit quality
8-9 Satisfactory credit quality
10 Average and poor credit quality

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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
Total	**91,056**	**147,739**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

7.1.5. 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 Group of 10.8% and 11.9%, respectively.

Exposure by industry

Industry	Credit risk exposure	December 31st 2021 % share in total
Real estate activities	1,542,030	11.9%
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,396,393	10.8%
Wholesale trade, except trade in motor vehicles	1,273,899	9.8%
Hospitality	574,772	4.4%
Public administration and defence, compulsory social security	480,915	3.7%
Construction of buildings	439,025	3.4%
Sports, entertainment and recreational activities	347,042	2.7%
Manufacture of food products	237,262	1.8%
Activities of head offices; management consultancy	235,909	1.8%
Financial services, except insurance and pension funds	228,854	1.8%
Manufacture of chemicals and chemical products	201,939	1.6%
Crop and animal production, hunting and related service activities	177,240	1.4%
Retail trade, except retail trade in motor vehicles	164,648	1.3%
Manufacture of fabricated metal products, except machinery and equipment	160,067	1.2%
Other sectors, including:	5,480,760	42.4%
retail clients	3,591,392	27.8%
Total gross amounts due from clients	**12,940,755**	**100.0%**
Impairment losses	- 1,122,626	
Security deposits	32,768	
Other amounts due from clients	4,750	
Total net amounts due from clients	**11,855,647**	

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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	1,768,313	13.6%
Real estate activities	1,536,646	11.8%
Wholesale trade, except trade in motor vehicles	905,202	6.9%
Construction of buildings	768,867	5.9%
Public administration and defence, compulsory social security	629,971	4.8%
Hospitality	534,854	4.1%
Sports, entertainment and recreational activities	336,853	2.6%
Manufacture of chemicals and chemical products	261,836	2.0%
Manufacture of food products	260,424	2.0%
Manufacture of fabricated metal products, except machinery and equipment	221,035	1.7%
Financial services, except insurance and pension funds	134,415	1.0%
Other sectors, including:	5,697,587	43.6%
retail clients	3,801,485	29.1%
Total gross amounts due from clients	**13,056,003**	**100.0%**
Impairment losses	- 1,203,009	
Security deposits	31,704	
Other amounts due from clients	2,599	
Total net amounts due from clients	**11,887,297**	

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

7.1.6. 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
Total	**1,985,791**

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
Total	**1,934,032**

*\ 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.

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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.

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7.1.7. 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
Amounts due from other banks	**401,316**	**- 569**	**400,747**
Financial assets held for trading	**155,705**	**-**	**155,705**
equity securities	13,308	-	13,308
debt securities	5,321	-	5,321
derivative instruments	137,076	-	137,076
Investment securities	**7,109,095**	**- 164**	**7,108,931**
equity securities measured at fair value through other comprehensive income	85,483	-	85,483
debt securities measured at fair value through other comprehensive income	5,311,853	-	5,311,853
debt securities measured at fair value through profit or loss	129,229	-	129,229
debt securities measured at amortised cost	1,582,530	- 164	1,582,366
Amounts due from clients	**12,978,316**	**- 1,122,669**	**11,855,647**
Measured at amortised cost	12,926,644	- 1,122,626	11,804,018
from institutional clients	9,335,903	- 806,527	8,529,376
from retail clients	3,590,741	- 316,099	3,274,642
Measured at fair value through profit or loss	14,111	-	14,111
from institutional clients	13,460	-	13,460
from retail clients	651	-	651
Other amounts due from clients	37,561	- 43	37,518
Other financial assets*	**262,068**	**- 10,281**	**251,787**

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

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Item	December 31st 2020		
	Gross carrying amount	Impairment losses	Maximum credit risk exposure
Amounts due from other banks	**156,559**	**-943**	**155,616**
Financial assets held for trading	**113,134**	**-**	**113,134**
equity securities	14,032	-	14,032
debt securities	805	-	805
derivative instruments	98,297	-	98,297
Investment securities	**7,371,560**	**-146**	**7,371,414**
equity securities measured at fair value through other comprehensive income	85,480	-	85,480
debt securities measured at fair value through other comprehensive income	5,597,061	-	5,597,061
debt securities measured at amortised cost	153,634	-	153,634
debt securities measured at fair value through profit or loss	1,535,385	-146	1,535,239
Amounts due from clients	**13,090,308**	**-1,203,011**	**11,887,297**
Measured at amortised cost	13,030,489	-1,203,009	11,827,480
from institutional clients	9,230,196	-866,440	8,363,756
from retail clients	3,800,293	-336,569	3,463,724
Measured at fair value through profit or loss	25,514	-	25,514
from institutional clients	24,322	-	24,322
from retail clients	1,192	-	1,192
Other amounts due from clients	34,305	-2	34,303
Other financial assets*	**314,487**	**-10,796**	**303,691**

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

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Credit risk exposures by category of contingent liabilities

Item	Maximum credit risk exposure	
	December 31st 2021	December 31st 2020
Contingent financial liabilities, including:	2,814,089	2,490,309
open lines of credit, including:	2,793,138	2,464,889
revocable	2,337,580	2,130,346
irrevocable	455,558	334,543
open import letters of credit	20,951	20,250
loan commitments, including:	-	5,170
irrevocable	-	5,170
Guarantees and sureties	450,033	372,847
Foreign exchange and interest rate transactions*	4,913,107	6,566,687

*\ 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.

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7.1.8. 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 property 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 Group. The Group 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
Total amounts due from clients	**865,288**	**- 470,856**	**394,432**	**55,312**	**- 2,218**	**53,094**
Amounts due from retail clients, including:	136,625	- 92,043	44,582	15,252	- 1,060	14,192
individually measured\	66,991	- 34,487	32,504	-	-	-
Amounts due from institutional clients, including:	728,663	- 378,813	349,850	40,060	- 1,158	38,902
individually measured\	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
Total amounts due from clients	**676,101**	**-419,801**	**256,300**	**89,461**	**-3,364**	**86,097**
Amounts due from retail clients, including:	171,682	-114,448	57,234	21,660	-1,607	20,053
individually measured\	73,387	-37,024	36,363	-	-	-
Amounts due from institutional clients, including:	504,419	-305,353	199,066	67,801	-1,757	66,044
individually measured\	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.

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7.2. Financial risk in the bank book and the trading book, and risk limits

The financial risk in the Group is concentrated mainly at the Bank and at Dom Maklerski BOŚ S.A. and includes:
1. liquidity risk,
2. market risk, including:
   a. interest rate risk (in the banking book and the trading book),
   b. currency risk (mainly in the trading book; currency risk from the banking book is transferred to the trading book),
   c. other risks (general and specific risk of equity instruments, commodities risk and position risk in collective investment undertakings).

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

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

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

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

Transactions in the banking book represent the core business of the Bank, which means that they result from commercial operations, including raising financing and efficient management of financial liquidity. The banking book includes positions which are not included in the trading book, in particular:
a. granted credit facilities and guarantees, as well as accepted deposits, including term deposits,
b. liquidity- and interest-rate hedges of transactions carried in the banking book,
c. purchase of securities for non-trading purposes.

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

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

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

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

7.2.1. Liquidity risk

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

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

The structure and organization of the liquidity risk management function includes all levels of the Bank's organizational structure and operates within the three lines of defence. A particular role in the liquidity risk management process is played by the Management Board of the Bank and the 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
M3	47.78	54.72
M4	1.40	1.41
LCR	141%	131%
NSFR	133%	104%

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

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

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

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

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

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

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

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

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

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

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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	2.70	1.61	1.22	1.02	0.97	1.00	
Total assets	5,672,794	478,383	787,264	1,324,919	6,172,110	6,150,270	**20,585,740**
of which amounts due from clients	122,110	325,285	608,460	1,267,123	4,769,435	4,763,233	**11,855,647**
Total liabilities	2,101,812	1,717,094	1,850,119	2,462,523	6,722,842	5,731,350	**20,585,740**
of which amounts due to clients	1,590,766	1,633,144	1,757,680	2,288,228	5,907,102	3,830,943	**17,007,863**
Gap	3,570,982	-1,238,711	-1,062,855	-1,137,604	-550,732	418,920	-
Accumulated gap	3,570,982	2,332,271	1,269,416	131,812	-418,920	-	-

December 31st 2020	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Liquidity gap ratio	3.75	2.14	1.46	1.14	0.99	1.00	
Total assets	5,678,616	515,710	480,346	1,085,996	6,334,285	6,410,877	**20,505,829**
of which amounts due from clients	98,711	393,123	479,350	1,048,561	5,189,912	4,677,640	**11,887,297**
Total liabilities	1,514,285	1,378,604	1,665,911	2,232,315	7,492,231	6,222,482	**20,505,829**
of which amounts due to clients	969,814	1,220,167	1,403,460	2,126,290	6,790,400	4,050,583	**16,560,715**
Gap	4,164,331	-862,894	-1,185,565	-1,146,319	-1,157,946	188,394	-
Accumulated gap	4,164,331	3,301,436	2,115,871	969,552	-188,394	-	-

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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
Inflows, including:	**375,771**	**330,891**	**167,460**	**119,354**	**214,252**	**1,207,728**
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	4,204	11,001	33,665	214,252	267,021
Outflows, including:	**378,732**	**342,619**	**166,304**	**114,084**	**181,899**	**1,183,638**
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	5,827	10,399	27,409	181,899	229,513

December 31st 2020	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Inflows, including:	**663,217**	**113,751**	**155,291**	**140,541**	**154,324**	**1,227,124**
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	5,617	5,560	23,779	88,764	130,115
Outflows, including:	**670,163**	**117,586**	**162,578**	**139,441**	**152,237**	**1,242,005**
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	6,799	9,584	22,434	86,736	132,893

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Derivative instrument cash flows (net settlements)

December 31st 2021	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Inflows, including:	**78**	**1,583**	**-**	**20,566**	**-**	**22,227**
Forward contracts	78	1,583	-	44	-	1,705
Forward contracts	-	-	-	-	-	-
CFD	-	-	-	20,522	-	20,522
Outflows, including:	**-**	**94**	**38**	**4,031**	**-**	**4,163**
Forward contracts	-	94	38	-	-	132
Forward contracts	-	-	-	-	-	-
CFD	-	-	-	4,031	-	4,031

December 31st 2020	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Inflows, including:	**104**	**754**	**21**	**19,416**	**-**	**20,295**
Forward contracts	104	754	21	14	-	893
Forward contracts	-	-	-	-	-	-
CFD	-	-	-	19,402	-	19,402
Outflows, including:	**38**	**1,044**	**60**	**3,972**	**-**	**5,114**
Forward contracts	3	953	45	3	-	1,004
Forward contracts	35	91	15	-	-	141
CFD	-	-	-	3,969	-	3,969

7.2.2. Interest rate risk

Interest rate risk is defined 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.

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

In 2021, both NII and EVE were within limit/at warning levels consistent with the risk appetite approved by the Supervisory Board. Changes in the values of these measures have a certain cyclical nature, which is due to the regular approximation of the timing of the repricing of floating rate positions and the maturity of fixed rate positions. The lower sensitivity of net interest income in 2021 to a 100 bps decrease in market interest rates was caused, among other factors, by three interest rate increases by the Monetary Policy Council in the fourth quarter, which resulted in a decision by the Bank to increase interest rates on term deposits and savings accounts 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.

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

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

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

[1] sharper shock (decrease in short-term rates and increase in long-term rates),
[2] more moderate shock (increase in short-term rates and decrease in long-term rates),
[3] interest rate shocks in the short run are extinguished in longer tenors.

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

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

1. sensitivity of the net interest income (NII):
- scenarios of parallel shifts of interest rate curves within the range of [-500 bps, +500 bps],
- scenarios of exchange rate movements by ±5%, ±10% and ±25%,
- scenarios of cumulative changes in the parallel shifts of interest rate curves by ±100 bps and ±500 bps, and foreign exchange rates by ±5%, ±10% and ±25%,

2. sensitivity of the economic value of equity (EVE):
- scenarios of parallel shifts of interest rate curves within the range of [-500 bps, +500 bps],
- scenarios of exchange rate movements by ±5%, ±10% and ±25%,
- scenarios of cumulative changes in the parallel shifts of interest rate curves by ±200 bps and ±500 bps, and foreign exchange rates by ±5%, ±10% and ±25%,

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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 ±200 bps – on the Bank's profit or loss in annual periods are presented below (maximum, minimum, mean and as at the reporting date).

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

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

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

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

Once a month, the Bank conducts stress testing analysis, examining the development of the interest rate risk in the banking and trading book in case of materialisation of extreme changes in risk factors.
In the trading book, the Bank examines the impact of extreme adverse movements of market interest rates on the Bank's profit or loss as well as the volatility of interest rates over 250 business days and the correlation between the interest rate volatility and VaR using both the historical and parametric methods. The historical method took into account the volatility of interest rates caused by the COVID-19 pandemic.

The Bank uses the following scenarios to analyse the impact of stress:
1. historical:
   - parallel movements of the yield curves (including fat tails and spread),
   - curvature of the yield curves,
   - changes in the slope of yield curves,
2. parametric:
   - parallel movement of the yield curves,
   - increase in interest rate volatility,
   - extremely adverse changes in the correlation of interest rates.

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

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

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

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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
Assets						
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	1,314,314	3,972,401
Forward contracts	1,230	24,954	10	1,511	-	27,705
Forward contracts	-	-	-	-	-	-
CFD	-	-	-	360,994	-	360,994
Total assets	**1,036,103**	**1,344,816**	**890,102**	**716,472**	**1,314,314**	**5,301,807**
Equity and liabilities						
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	833,619	755,570	215,329	1,757,882	3,972,400
Forward contracts	916	38,482	4,082	50	-	43,530
Forward contracts	-	-	-	-	-	-
CFD	-	-	-	449,781	-	449,781
Total equity and liabilities	**785,669**	**1,208,893**	**915,557**	**751,835**	**1,757,882**	**5,419,836**
Total	**250,434**	**135,923**	**-25,455**	**-35,363**	**-443,568**	

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December 31st 2020	1M	1–3M	3–6M	6-12M	Over 1Y	Total
Assets						
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	1,549,147	5,469,680
Forward contracts	567	38,973	1,532	267	-	41,339
Forward contracts	1,368	4,784	457	-	-	6,609
CFD	-	-	-	197,269	-	197,269
Total assets	**1,672,559**	**1,305,182**	**1,386,180**	**833,278**	**1,614,707**	**6,811,906**
Equity and liabilities						
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	1,048,843	1,232,753	421,000	2,013,280	5,469,677
Forward contracts	3,579	37,127	703	574	-	41,983
Forward contracts	-	-	746	-	-	746
CFD	-	-	-	339,354	-	339,354
Total equity and liabilities	**1,420,203**	**1,196,757**	**1,387,196**	**877,935**	**2,078,781**	**6,960,872**
Total	**252,356**	**108,425**	**-1,016**	**-44,657**	**-464,074**	**-**

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7.2.3. Currency risks

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

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

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

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

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

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

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

Measures of currency risk

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

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

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

Date	10-day VaR						Stress tests of the Group – increase/decrease of foreign exchange
	Bank		DM		Group		
	mean	max	min	as at	as at	as at	as at
December 31st 2021	276	1,700	16	560	2,049	1,843	-1,937
December 31st 2020	230	966	8	259	2,498	2,756	-7,127

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

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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.

Analyses show that the Group's foreign exchange risk during the reporting period remained moderate.

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 currenc	Total
Assets						
Cash and balances at central bank	322,966	36,976	1,176	267	196	361,581
Amounts due from banks	14,571	29,204	295,736	6,248	54,988	400,747
Financial assets held for trading, including:	134,772	2,701	17,700	-	532	155,705
equity securities	13,308	-	-	-	-	13,308
debt securities	5,321	-	-	-	-	5,321
derivative instruments	116,143	2,701	17,700	-	532	137,076
Derivative hedging instruments	9,121	-	-	-	-	9,121
Investment securities, including:	7,108,759	146	26	-	-	7,108,931
equity securities measured at fair value through other comprehensive income	85,311	146	26	-	-	85,483
debt securities measured at fair value through other comprehensive income	5,311,853	-	-	-	-	5,311,853
debt securities measured at amortised cost	1,582,366	-	-	-	-	1,582,366
debt securities measured at fair value through profit or loss	129,229	-	-	-	-	129,229
Amounts due from clients	9,353,758	1,589,247	138,307	774,332	3	11,855,647
Other assets*\	670,788	2,001	18,724	837	1,658	694,008
Total assets	**17,614,735**	**1,660,275**	**471,669**	**781,684**	**57,377**	**20,585,740**
Off-balance sheet items constituting foreign currency i...		**271,594**	**178,455**	**65,566**	**8,344**	

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

Liabilities						
Amounts due to central bank and other banks	11,388	275,826	-	133,175	-	420,389
Financial liabilities held for trading	94,135	398	4,882	-	244	99,659
Amounts due to clients	15,019,892	1,322,977	560,508	53,132	51,354	17,007,863
Subordinated liabilities	369,107	-	-	-	-	369,107
Provisions	40,232	36,613	5,172	368,786	-	450,803
Other liabilities	347,218	21,485	3,111	-	310	372,124
Total liabilities	**15,881,972**	**1,657,299**	**573,673**	**555,093**	**51,908**	**18,719,945**
Off-balance sheet items constituting foreign currency item		**274,185**	**86,264**	**293,594**	**49,324**	
On-balance sheet item		**2,976**	**-102,004**	**226,591**	**5,469**	
Off-balance sheet item		**-2,591**	**92,191**	**-228,028**	**-40,980**	
Groups's open currency position		**385**	**-9,813**	**-1,437**	**-35,511**	

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December 31st 2020	PLN	EUR	USD	CHF	Other currenc	Total
Assets						
Cash and balances at central bank	253,171	12,309	721	195	156	266,552
Amounts due from banks	50,976	63,747	14,476	1,446	24,971	155,616
Financial assets held for trading, including:	95,637	5,133	11,366	-	999	113,134
equity securities	14,032	-	-	-	-	14,032
debt securities	805	-	-	-	-	805
derivative instruments	80,800	5,133	11,366	-	999	98,297
Investment securities, including:	7,371,414	-	-	-	-	7,371,414
equity securities measured at fair value through other comprehensive income	85,480	-	-	-	-	85,480
debt securities measured at fair value through other comprehensive income	5,597,061	-	-	-	-	5,597,061
debt securities measured at amortised cost	1,535,239	-	-	-	-	1,535,239
debt securities measured at fair value through profit or loss	153,634	-	-	-	-	153,634
Amounts due from clients	9,080,574	1,805,130	128,972	872,593	28	11,887,297
Other assets*\	696,880	4,903	8,875	870	288	711,816
Total assets	**17,548,652**	**1,891,222**	**164,410**	**875,104**	**26,442**	**20,505,829**
Off-balance sheet items constituting foreign currency		**359,294**	**354,438**	**31,724**	**77,662**	

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

Liabilities						
Amounts due to central bank and other banks	822	240,999	677	490,245	-	732,743
Financial liabilities held for trading	98,539	216	4,331	-	230	103,316
Derivative hedging instruments	24,497	-	-	-	-	24,497
Amounts due to clients	14,821,977	1,417,011	211,603	61,110	49,014	16,560,715
Subordinated liabilities	368,996	-	-	-	-	368,996
Provisions	171,427	2,076	1,274	-	-	174,777
Other liabilities	373,809	7,940	1,890	5	214	383,858
Total liabilities	15,860,067	1,668,242	219,775	551,360	49,458	18,348,902
Off-balance sheet items constituting foreign currency item		**557,392**	**339,457**	**368,896**	**73,587**	
On-balance sheet item		**222,980**	**-55,365**	**323,744**	**-23,016**	
Off-balance sheet item		**-198,098**	**14,981**	**-337,172**	**4,075**	
Groups's open currency position		**24,882**	**-40,385**	**-13,428**	**-18,941**	

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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.

7.2.4. Other market risks

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

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

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

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

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

7.3. Capital management

For capital adequacy purposes, the Group 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 Group met the applicable capital standards as at December 31st 2021.

Following the decision to apply the transitional provisions, as of February 1st 2018 the Group 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 Group's capital, risk-weighted assets, capital ratios, leverage ratio and internal capital were as follows:

Item	December 31st 2021	December 31st 2020
Available capital		
Common equity Tier 1 capital	1,796,302	1,889,750
Common equity Tier 1 capital – without IFRS 9 transitional provisions	1,739,139	1,809,722
Tier 1 capital	1,796,302	1,889,750
Tier 1 capital – without IFRS 9 transitional provisions	1,739,139	1,809,722
Own funds	1,978,861	2,145,333
Own funds – without IFRS 9 transitional provisions	1,921,698	2,065,305
Risk-weighted assets		
Total amount of risk-weighted assets	13,544,071	14,438,751
Credit risk and counterparty credit risk	11,998,340	13,022,337
Operational risk	1,060,015	1,064,215
Market risk	463,378	343,877
CVA risk	22,338	8,323
Total amount of risk-weighted assets – without IFRS 9 transitional provisions	13,491,884	14,386,856
Capital ratios		
Common equity Tier 1 capital ratio	13.26	13.09
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	12.89	12.58
Tier 1 capital ratio	13.26	13.09
Tier 1 capital ratio – without IFRS 9 transitional provisions	12.89	12.58
Total capital ratio	14.61	14.86
Total capital ratio – without IFRS 9 transitional provisions	14.24	14.36
Leverage ratio		
Exposure value	22,821,635	22,073,776
Leverage ratio	7.9	8.6
Leverage Ratio – without IFRS 9 transitional provisions	7.6	8.3
Internal capital		
Internal capital	1,519,695	1,720,983

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 Group monitors the scale and structure of the Group's business and factors that may adversely affect the level of the Group's equity.

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On a quarterly basis, the Group 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 Group. These regulations were the basis for monitoring, assessment of significance and determination of internal capital for particular risks incurred by the Bank and Dom Maklerski BOŚ S.A.

In accordance with Article 92 of the CRR, the Group 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% 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 December 9th 2021, the Polish Financial Supervision Authority recommended that the Bank maintains consolidated 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 0.63 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 0.47 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 0.35 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 8.97% for Tier 1 capital ratio and 11.13% for the TCR ratio.

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

7.4. Operational risk

Operational risk management at the Group focuses on the Bank and those companies which, in accordance with internal procedures, have been identified as those generating significant operational risk. As at December 31st 2021, operational risk was identified at the Bank, at Dom Maklerski BOŚ S.A. and at BOŚ Leasing - EKO Profit S.A.

The Bank seeks to develop a Group-wide uniform operational risk management system, covering identification, measurement, monitoring, reporting and control of operational risk. The unified approach is aimed, among other things, at defining and implementing instruments to organise operational risk management in the Group, modelled on the instruments applied by the Bank. The Bank analyses information on operational risk within the Group, with particular focus on losses incurred due to the risk, provides opinions on the risk-relevant internal regulations observed by the subsidiaries and presents recommendations for actions in the area of operational risk management.

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 Group uses an operational risk management system, in which responsibility for day-to-day management of operational risk lies with all employees of the Bank.

The Group operates an organisational unit of the Bank 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, and monitors the level of risk at the Group companies.

Information on significant operational risk events is collected at the Bank and at the subsidiaries that are significant in terms of the operational risk generated. The information is collected by the Bank in a dedicated IT application and used to:

1. monitor the level of operational risk on an ongoing basis,
2. monitor the action taken in response to operational risk incidents,
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. calculation and monitoring of key risk indicators (KRI),
3. reviews of operational risk (self-assessment of potential operational risk),
4. 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 by a dedicated unit at the Bank's 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.

7.5. Compliance risk

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

The Group 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 Group 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 Group focused its efforts on preventing the occurrence of compliance risk, with particular focus on preventing money laundering and terrorist financing.

7.6. Model risk

Model risk in the Group is concentrated in the Bank. BOŚ Leasing – EKO Profit S.A. has only immaterial models for which the risk is not assessed. As at December 31st 2021, Dom Maklerski BOŚ S.A did not use models in its activities.

Model risk is defined by the Bank in accordance with supervisory 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 Group 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 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 Group operated a total of 23 models, including seven material models and 16 immaterial models. Material models are used only at the Bank. 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.

8. 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 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 measured at fair value through profit or loss	
Amounts due from banks and the central	6,184	-	-	6,184	986	-	-	986
Amounts due from institutional clients	262,196	-	705	262,901	309,299	-	1,182	310,481
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	-	-	3,353	3,353	-	-	1,876	1,876
Total	**382,201**	**45,971**	**4,058**	**432,230**	**447,816**	**67,698**	**3,068**	**518,582**

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Item	January 1st – December 31st 2021			January 1st – December 31st 2020		
Interest expense and similar charges on:	**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**
Bank accounts and deposits from banks	973	-	973	321	-	321
Bank accounts and deposits from institutional clients	4,698	-	4,698	22,447	-	22,447
Bank accounts and deposits from retail clients	27,583	-	27,583	96,456	-	96,456
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	4,080	-	4,080	3,686	-	3,686
Litigation and claims related to foreign currency mortgage loans	-	-	-	614	-	614
Other	3	-	3	639	-	639
Total	**49,712**	**6,433**	**56,145**	**139,902**	**7,700**	**147,602**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

9. Net fee and commission income

Item	January 1st –	January 1st –
Fee and commission income		
Brokerage service fees	100,456	101,450
Fees for maintaining client accounts, other domestic and international settlement transactions	36,717	32,637
Commission fees on credit facilities	37,677	31,281
Commission fees on guarantees and letters of credit	6,355	5,943
Fees for portfolio management services and other management fees	532	605
Other fees	5	2
Total	**181,742**	**171,918**
Fee and commission expense		
Brokerage fees, including:	29,023	27,419
for custody services	651	405
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	138	213
Other fees	628	969
Total	**39,888**	**37,328**

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10. Dividend income

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Securities held for trading at fair value through profit or loss	203	57
Securities measured at fair value through other comprehensive income	6,527	6,205
Total	**6,730**	**6,262**

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).

11. 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	- 3,770	- 16,456
Derivative financial instruments	69,010	87,296
Amounts due from clients	89	32
Securities measured at fair value through profit or loss and related derivative financial instruments	2,304	3,589
Total	**67,633**	**74,461**

12. 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
Total	**197**	**4,239**

13. Gain (loss) on hedge accounting

Item	January 1st – December 31st 2021	January 1st – December 31st 2020

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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
Total	**764**	**- 2,038**

14. Gain (loss) on foreign exchange transactions

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Realised gain (loss) on valuation transactions	17,207	20,210
Unrealised gain (loss) on valuation transactions	8,093	6,186
Total	**25,300**	**26,396**

15. Other income

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Reversal of provisions for liabilities, including:	5,818	5,481
provisions for liabilities and claims	466	2,138
other provisions	5,352	3,343
Reversal of impairment losses on receivables	3,668	1,599
Recoveries of prescribed, cancelled or uncollectible receivables	2,132	177
Proceeds from sale or retirement of property, plant and equipment	45	69
Reimbursement of debt collection costs	1,867	748
Revenue from sale of goods and provision of services	17,682	8,819
Adjustment of interest on cancelled deposits from previous years	341	907
Income from damages, penalties and fines	123	215
Other	3,407	2,597
Total	**35,083**	**20,612**

Due to the change in presentation described in Note 4.2 "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).

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

16. Other expenses

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Retirement of property, plant and equipment and intangible assets	692	137
Donations	1,376	1,404
Recognised provisions for liabilities and claims, including:	2,027	11,834
provision for refund of commission fees due to early loan repayment	184	1,269
provision for other liabilities and claims	445	10,565
other provisions	1,398	-
Impairment losses on receivables	5,440	3,657
Costs of debt collection	2,537	2,944
Adjustment to interest and commission fees on previous years' loans	20,014	1,873
Lease payments	2,870	1,331
Costs of maintenance and administration of own leased premises	3,184	119
Costs damages, penalties and fines	139	472
Costs of erroneous brokerage transactions	236	250
Other	5,283	4,070
Total	**43,798**	**28,091**

17. Effect of legal risk of mortgage loans denominated in foreign currencies

Item	January 1st – December	January 1st – December
Effect of legal risk of mortgage loans tied to currency exchange rates	- 20,783	- 353,010
Total	**- 20,783**	**- 353,010**

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
Total	**1,466,709**	**1,589,424**

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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
	408,146	**376,410**
Impairment losses due to filing of debt cancellation lawsuit		
CHF	53,817	20,693
EUR	143	1,057
USD	290	496
	54,250	**22,246**
Total provisions and impairment losses due to filing of debt cancellation lawsuit	**462,396**	**398,656**

The BOŚ Group 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 2 'Compromise and Settlement Programme for residential mortgage-backed loans tied to foreign currency exchange rates'.

In connection with court cases the Group 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 Group 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 Group 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 BOŚ Group maintained its assumption as to the expected number of court cases for the next three years.

To estimate the financial loss, the Group 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.

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Apart from the provision recognised in accordance with IAS 37, the Group 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 35 'Provisions'.

18. 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:	- 116,644	- 159,197
on-balance-sheet receivables	- 116,950	- 157,005
from retail clients	- 83,615	- 51,726
from institutional clients	- 33,335	- 105,279
off-balance-sheet liabilities	306	- 2,192
from retail clients	- 265	- 104
from institutional clients	571	- 2,088
Total	**- 114,094**	**-163,793**

Net impairment losses on amounts due from clients:

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Individual assessment	- 106,836	- 82,697
Group assessment	- 10,114	- 74,308
Total	**- 116,950**	**- 157,005**

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19. Administrative expenses

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Employee benefits	191,142	170,723
Administrative expenses, including:	148,717	152,733
material costs	111,402	109,058
taxes and charges	7,254	5,480
contribution and payments to BGF	27,073	35,552
contribution and payments to PFSA	2,761	2,360
contribution to cover operating expenses of Financial Ombudsman	136	192
contribution to Chamber of Brokerage Houses (Izba Domów Maklerskich, IDM)	91	91
Amortization and depreciation, including:	55,843	52,905
depreciation of property, plant and equipment	13,503	12,961
amortisation of intangible assets	27,200	24,402
depreciation of rights-of-use assets	15,140	15,542
Total	**395,702**	**376,361**

Employee benefits

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Salaries and wages, including:	161,811	143,724
retirement benefits	127	289
Social security contributions	29,331	26,999
Total	**191,142**	**170,723**

The Group does not fund retirement benefits based on defined benefit plans, except for retirement severance pay.

Depreciation of right-of-use assets

Item	December 31st 2021	December 31st 2020
Real property	14,848	15,254
Vehicles	292	288
Total	**15,140**	**15,542**

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20. Income tax expense

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Current tax	- 39,709	- 38,728
Deferred tax	7,896	17,547
Total	**- 31,813**	**- 21,181**
Profit (loss) before tax	**79,269**	**- 285,753**
Income tax at 19% tax rate	- 15,061	54,293
Permanent differences between profit before tax and tax base	- 16,755	- 76,996
decreasing:	9,308	3,525
reversed impairment losses	1,442	745
dividends received	1,279	1,190
release of provisions, including provisions for court proceedings and claims for legal risk related to foreign currency mortgage loans	6,222	-
other	365	1,590
increasing:	- 26,958	- 81,114
recognised impairment losses	- 9,419	- 3,052
provisions recognised for other liabilities, including provisions for legal proceedings and claims related to foreign currency mortgage loans	- 10,167	- 68,166
contributions to BGF	- 5,121	- 6,734
other	- 2,251	- 3,162
deductions from taxable income:	895	593
tax loss deduction	514	-
R&D relief	119	327
donations	262	266
Tax expense on profit or loss for current year	**- 31,816**	**- 22,703**
Tax expense on profit or loss for previous years	**3**	**1,522**
Total tax expense on profit or loss	**- 31,813**	**- 21,181**
Effective tax rate	**40%**	**-7%**

For detailed information on deferred tax, see Note 36.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

21. 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)	47,456	- 306,934
Weighted average number of ordinary shares (thousand)	92,910	92,910
Basic earnings (loss) per share (PLN)	**0.51**	**- 3.30**

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

22. Cash and balances at central bank

Item	December 31st 2021	December 31st 2020
Cash in hand	23,442	21,782
Cash and balances at central bank	338,139	244,770
Total	**361,581**	**266,552**

23. Amounts due from other banks

Item	December 31st 2021	December 31st 2020
Deposits with other banks, recognised as cash equivalents	343,543	33,328
Deposits with other banks up to 3 months	5,757	9,088
including: deposits with other banks up to 3 months (funds of Dom Maklerski BOŚ clients)	5,757	9,088
Derivative hedging receivables	36,938	99,092
Debt securities classified as amounts due from other banks	15,078	15,051
Total gross	**401,316**	**156,559**
Impairment losses on debt securities classified as receivables from other banks	- 569	- 943
Total net	**400,747**	**155,616**

For information on amounts due from other banks by maturity, see Note 27.

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

Item	Gross carrying amount of amounts due				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
At beginning of period January 1st 2021	**141,508**	**15,051**	**-**	**-**	**156,559**
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	- 32,717	-	-	-	- 32,717
At end of period December 31st 2021	**386,238**	**15,078**	**-**	**-**	**401,316**

Item	Gross carrying amount of amounts due				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
At beginning of period January 1st 2020	**151,696**	**15,074**	**-**	**-**	**166,770**
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	- 62,912	-	-	-	- 62,912
At end of period December 31st 2020	**141,508**	**15,051**	**-**	**-**	**156,559**

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	
At beginning of period January 1st 2021	**-**	**943**	**-**	**-**	**943**
Changes due to change in credit risk	-	- 374	-	-	- 374
At end of period December 31st 2021	**-**	**569**	**-**	**-**	**569**

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

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

24. Financial assets and liabilities held for trading

Assets	December 31st 2021	December 31st 2020
Derivative financial instruments, including:	137,076	98,297
foreign exchange and currency derivative transactions	13,475	7,756
interest rate derivative transactions	103,854	74,136
forward contracts and options	19,747	16,405
Securities held for trading	18,629	14,837
debt securities	5,321	805
equity securities	13,308	14,032
Total financial assets held for trading	**155,705**	**113,134**

Liabilities	December 31st 2021	December 31st 2020
Derivative financial instruments, including:	99,659	102,741
foreign exchange and currency derivative transactions	23,083	17,458
interest rate derivative transactions	71,620	80,638
forward contracts and options	4,956	4,645
Securities held for trading	-	575
equity securities	-	575
Total financial liabilities held for trading	**99,659**	**103,316**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

25. 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
Debt securities:	**5,311,853**	**1,582,366**	**129,229**	**7,023,448**	**5,597,061**	**1,535,239**	**153,634**	**7,285,934**
Treasury bonds	1,462,432	1,373,528	-	2,835,960	2,026,964	1,397,710	-	3,424,674
Treasury bills	-	-	-	-	159,777	-	-	159,777
NBP money market bills – recognised as cash equivalents	2,899,014	-	-	2,899,014	2,179,952	-	-	2,179,952
municipal bonds	91,056	-	-	91,056	147,739	-	-	147,739
bonds of other banks	448,695	87,711	129,229	665,635	593,370	87,875	153,634	834,879
bonds of other financial institutions	410,656	121,127	-	531,783	489,259	49,654	-	538,913
Equity securities	**85,483**	**-**	**-**	**85,483**	**85,480**	**-**	**-**	**85,480**
listed	18,543	-	-	18,543	18,543	-	-	18,543
unlisted	66,940	-	-	66,940	66,937	-	-	66,937
Total	**5,397,336**	**1,582,366**	**129,229**	**7,108,931**	**5,682,541**	**1,535,239**	**153,634**	**7,371,414**

For information on investment securities by maturity, see Note 27.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Change in gross carrying amount and impairment losses on 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
At beginning of period January 1st 2021	**5,597,061**	**1,535,385**	**153,634**	**85,480**	**7,371,560**
Increase due to origination and purchase	125,080,439	70,596	-	-	125,151,035
Changes 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
At end of period December 31st 2021	**5,311,853**	**1,582,530**	**129,229**	**85,483**	**7,109,095**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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
At beginning of period January 1st 2020	**3,839,184**	**1,377,491**	**-**	**85,510**	**5,302,185**
Increase due to origination and purchase	105,267,786	160,586	149,625	-	105,577,997
Changes 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
At end of period December 31st 2020	**5,597,061**	**1,535,385**	**153,634**	**85,480**	**7,371,560**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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
At beginning of period January 1st 2021	**4,948**	**146**	**5,094**
Increase due to origination and purchase	5,886	9	**5,895**
Changes due to change in credit risk	-66	12	**-54**
Decrease due to derecognition	-8,014	-3	**-8,017**
At end of period December 31st 2021	**2,754**	**164**	**2,918**

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
At beginning of period January 1st 2020	**298**	**107**	**405**
Increase due to origination and purchase	6,292	43	**6,335**
Changes due to change in credit risk	1	-4	**-3**
Decrease due to derecognition	-1,643	-	**-1,643**
At end of period December 31st 2020	**4,948**	**146**	**5,094**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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
Security for loans received from banks and International Financial Organisations	**207,433**	**515,537**	**361,668**	**598,119**
up to 1 year	-	-	82,129	-
over 1 year	207,433	515,537	279,539	598,119
Security for Guaranteed Funds Protection Fund	**-**	**56,705**	**-**	**60,849**
over 1 year	-	56,705	-	60,849
Security for liabilities in the form of contributions to Guarantee Fund	**6,960**	**20,293**	**11,992**	**12,325**
up to 1 year	-	-	4,006	**-**
over 1 year	6,960	20,293	7,986	12,325
Security for liabilities in the form of contributions to Forced Restructuring Fund	**9,942**	**23,542**	**17,017**	**13,590**
up to 1 year	-	-	5,609	**-**
over 1 year	9,942	23,542	11,408	13,590
Collateral in REPO transactions	**140,286**	**-**	**275,212**	**321,133**
over 1 year	140,286	-	275,212	321,133
Total	**364,621**	**616,077**	**665,889**	**1,006,016**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

26. 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
Measured at amortised cost	**12,926,644**	**1,122,626**	**11,804,018**	**13,030,489**	**1,203,009**	**11,827,480**
Amounts due from retail clients	**3,590,741**	**316,099**	**3,274,642**	**3,800,293**	**336,569**	**3,463,724**
overdraft facilities	1,605	1,381	224	4,428	1,400	3,028
cash loans	382,496	81,570	300,926	474,414	110,114	364,300
housing loans	2,935,010	206,917	2,728,093	3,031,302	185,429	2,845,873
other credit facilities	271,630	26,231	245,399	290,149	39,626	250,523
Amounts due from institutional clients	**9,335,903**	**806,527**	**8,529,376**	**9,230,196**	**866,440**	**8,363,756**
working capital facilities	727,367	78,626	648,741	611,961	93,252	518,709
term facilities	7,472,953	700,987	6,771,966	7,991,981	754,186	7,237,795
factoring receivables	606,900	6,934	599,966	337,125	5,675	331,450
lease receivables	151,194	14,552	136,642	116,466	10,710	105,756
purchased receivables	129,665	2,354	127,311	97,470	1,347	96,123
commercial paper	247,824	3,074	244,750	75,193	1,270	73,923
Measurement at fair value through profit or loss	**-**	**-**	**14,111**	**-**	**-**	**25,514**
Amounts due from retail clients	**-**	**-**	**651**	**-**	**-**	**1,192**
housing loans	-	-	257	-	-	427
other credit facilities	-	-	394	-	-	765
Amounts due from institutional clients	**-**	**-**	**13,460**	**-**	**-**	**24,322**
working capital facilities	-	-	19	-	-	39
term facilities	-	-	13,441	-	-	24,283
Total	**-**	**-**	**11,818,129**	**-**	**-**	**11,852,994**
Security deposits	32,811	43	32,768	31,706	2	31,704
Other amounts due from clients	4,750	-	4,750	2,599	-	2,599
Total amounts due from clients	**-**	**-**	**11,855,647**	**-**	**-**	**11,887,297**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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
Preferential loans with subsidies, including:	**61,503**	**93,488**
measured at amortised cost	48,120	69,525
measured at fair value through profit or loss	13,383	23,963

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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
At beginning of period January 1st 2021	**3,101,929**	**202,317**	**496,047**	**-**	**3,800,293**	**5,481,028**	**2,198,405**	**1,550,407**	356	**9,230,196**
Increase due to origination and purchase	249,419	785	-	1,658	251,862	1,598,268	46,671	3,394	9,387	1,657,720
Change in gross carrying amount of existing portfolio	- 159,864	- 9,906	- 6,190	2	- 175,958	- 39,829	- 97,687	- 39,358	- 160	- 177,034
Decrease due to derecognition	- 138,800	- 8,631	- 138,025	-	- 285,456	- 672,278	- 500,611	- 202,090	-	- 1,374,979
including: change in gross carrying amount due to financial instruments that were written off in the statement of financial position	-	-	- 105,394	-	- 105,394	-	-	- 105,866	-	- 105,866
Change in gross carrying amount due to reallocation of financial asset between Buckets	- 126,076	- 6,334	132,410	-	-	587,393	- 559,806	- 27,587	-	-
Reallocation to Bucket 1	41,690	- 41,034	- 656	-	-	1,331,664	- 1,158,983	- 172,681	-	-
Reallocation to Bucket 2	- 60,393	69,633	- 9,240	-	-	- 615,620	680,247	- 64,627	-	-
Reallocation to Bucket 3	- 107,373	- 34,933	142,306	-	-	- 128,651	- 81,070	209,721	-	-
Other changes	- 45	86	- 41	-	-	2,550	- 2,552	2	-	-
At end of period December 31st 2021	**2,926,563**	**178,317**	**484,201**	**1,660**	**3,590,741**	**6,957,132**	**1,084,420**	**1,284,768**	**9,583**	**9,335,903**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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
At beginning of period January 1st 2021	**15,509**	**21,690**	**299,370**	**-**	**336,569**	**69,263**	**104,433**	**692,719**	**25**	**866,440**
Increase due to origination and purchase	3,103	32	-	16	3,151	22,833	801	109	209	23,952
Changes due to change in credit risk	- 2,791	3,033	91,612	16	91,870	- 46,236	13,830	112,694	765	81,053
Decrease due to derecognition	- 870	- 641	- 113,980	-	- 115,491	- 6,197	- 23,596	- 135,125	-	- 164,918
including: change in impairment losses on financial instruments written-off in the statement of financial position	-	-	- 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	-	-	30,096	- 30,568	472	-	-
Reallocation to Bucket 1	5,268	- 4,995	- 273	-	-	46,073	- 39,298	- 6,775	-	-
Reallocation to Bucket 2	- 508	3,699	- 3,191	-	-	- 11,404	14,162	- 2,758	-	-
Reallocation to Bucket 3	- 1,297	- 7,154	8,451	-	-	- 4,573	- 5,432	10,005	-	-
Other changes	- 11	10	1	-	-	- 65	- 40	105	-	-
At end of period December 31st 2021	**18,403**	**15,674**	**281,990**	**32**	**316,099**	**69,694**	**64,860**	**670,974**	**999**	**806,527**

(amounts in PLN thousand)

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
At beginning of period January 1st 2020	**3,246,426**	**223,318**	**357,357**	**-**	**3,827,101**	**5,445,050**	**2,213,490**	**1,646,564**	-	**9,305,104**
Increase due to origination and purchase	269,609	187	-	-	269,796	1,154,125	41,928	-	250	1,196,303
Changes due to change in credit risk	- 156,130	- 4,769	14,442	-	- 146,457	- 11,543	- 159,321	- 48,265	106	- 219,023
Decrease due to derecognition	- 138,271	- 6,873	- 5,003	-	- 150,147	- 571,018	- 258,489	- 219,678	-	- 1,049,185
including: change in gross carrying amount due to financial instruments that were written off in the statement of financial position	-	-	- 282	-	- 282	- 6,183	3,303	- 164,245	-	- 167,125
Change in gross carrying amount due to reallocation of financial asset between	- 119,600	- 9,648	129,248	-	-	- 545,839	374,055	171,785	-	1
Reallocation to Bucket 1	54,658	- 54,231	- 427	-	-	229,154	- 229,121	- 32	-	1
Reallocation to Bucket 2	- 64,317	75,311	- 10,994	-	-	- 699,209	697,928	1,281	-	-
Reallocation to Bucket 3	- 109,941	- 30,728	140,669	-	-	- 75,784	- 94,752	170,536	-	-
Other changes	- 105	102	3	-	-	10,253	- 13,258	1	-	- 3,004
At end of period December 31st 2020	**3,101,929**	**202,317**	**496,047**	**-**	**3,800,293**	**5,481,028**	**2,198,405**	**1,550,407**	**356**	**9,230,196**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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
At beginning of period January 1st 2020	**17,937**	**26,812**	**230,097**	**-**	**274,846**	**61,245**	**98,136**	**736,786**	**-**	**896,167**
Increase due to origination and purchase	3,423	21	-	-	3,444	16,033	1,395	-	3	17,431
Change in gross carrying amount of existing portfolio	- 10,290	6,362	67,145	-	63,217	- 6,336	28,106	119,726	22	141,518
Change in impairment losses on derecognition of financial assets	- 1,001	- 815	- 3,122	-	- 4,938	- 4,898	- 9,427	- 174,352	-	- 188,677
including: change in impairment losses on financial instruments written-off in the statement of financial position	-	-	- 282	-	- 282	- 1	-	- 167,124	-	- 167,125
Change in impairment losses due to reallocations of financial assets between	5,464	- 10,714	5,250	-	-	3,119	- 13,676	10,558	-	1
Reallocation to Bucket 1	7,297	- 7,129	- 168	-	-	16,392	- 16,382	- 9	-	1
Reallocation to Bucket 2	- 706	4,017	- 3,311	-	-	- 11,845	11,271	574	-	-
Reallocation to Bucket 3	- 1,127	- 7,602	8,729	-	-	- 1,428	- 8,565	9,993	-	-
Other changes	- 24	24	-	-	-	100	- 101	1	-	-
At end of period December 31st 2020	**15,509**	**21,690**	**299,370**	**-**	**336,569**	**69,263**	**104,433**	**692,719**	**25**	**866,440**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

27. 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 23)	385,668	-	79	-	15,000	-	-	**400,747**
Securities held for for trading (Note 24)	13,308	-	-	1,121	4,200	-	-	**18,629**
Securities measured at fair value through other comprehensive income (Note 25)	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 25)	-	-	76,082	51,903	1,077,650	376,731	-	**1,582,366**
Securities measured at fair value through profit or loss (Note 25)	-	-	-	-	-	129,229	-	**129,229**
Amounts due from clients (Note 26)	223,074	286,733	587,625	1,340,488	5,281,808	4,135,919	-	**11,855,647**
Total	**3,521,065**	**499,920**	**851,040**	**1,636,519**	**8,095,490**	**4,694,437**	**85,483**	**19,383,954**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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 and up to 5 years	over 5 years	undefined maturity date	Total
Amounts due from other banks (Note 23)	140,565	-	51	-	15,000	-	-	**155,616**
Securities held for for trading (Note 24)	-	-	-	14,836	-	1	-	**14,837**
Securities measured at fair value through other comprehensive income (Note 25)	2,860,574	-	410,375	23,972	1,937,442	364,698	85,480	**5,682,541**
Securities measured at amortised cost (Note 25)	-	-	-	25,943	696,161	813,135	-	**1,535,239**
Securities measured at fair value through profit or loss (Note 25)	-	-	-	-	-	153,634	-	**153,634**
Amounts due from clients (Note 26)	187,951	359,142	538,712	1,377,477	4,527,243	4,896,772	-	**11,887,297**
Total	**3,189,090**	**359,142**	**949,138**	**1,442,228**	**7,175,846**	**6,228,240**	**85,480**	**19,429,164**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

28. Intangible assets

Item	December 31st 2021	December 31st 2020
Goodwill	973	973
Licenses and software, including:	91,679	97,926
internally produced software	3,769	8,024
Intangible assets under development	20,150	11,941
Other	59	62
Total	**112,861**	**110,902**

Intangible assets fully amortised, in continuous use:

December 31st 2021 142,478
December 31st 2020 131,209

With respect to intangible assets that are not yet available for use, i.e., their development has not been completed, the Group 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.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Change in intangible assets

Item	Goodwill	Licences and software	Other	Intangible assets under development	Total
As at January 1st 2021					
Gross carrying amount	973	373,872	86	11,941	386,872
Amortisation	-	-275,946	-24	-	-275,970
Net carrying amount	**973**	**97,926**	**62**	**11,941**	**110,902**
Period ending December 31st 2021					
Net carrying amount at beginning of year	973	97,926	62	11,941	110,902
Increase	-	20,950	-	16,751	37,701
purchase	-	12,942	-	16,751	29,693
transfer from intangible assets under development	-	8,008	-	-	8,268
Decrease	-	-	-	-8,542	-8,542
retirement/sale	-	-	-	-534	-534
transfer to licences and software	-	-	-	-8,008	-8,008
Amortisation charge	-	- 27,197	-3	-	-27,200
Net carrying amount as at December 31st 2021	**973**	**91,679**	**59**	**20,150**	**112,861**
As at December 31st 2021					
Gross carrying amount	973	394,822	86	20,150	416,031
Amortisation	-	-303,143	-27	-	-303,170
Net carrying amount as at December 31st 2021	**973**	**91,679**	**59**	**20,150**	**112,861**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Item	Goodwill	Licences and software	Other	Intangible assets under development	Total
As at January 1st 2020					
Gross carrying amount	973	338,380	86	29,192	368,631
Amortisation	-	-251,547	-22	-	-251,569
Net carrying amount	**973**	**86,833**	**64**	**29,192**	**117,062**
Period ending December 31st 2020					
Net carrying amount at beginning of year	973	86,833	64	29,192	117,062
Increase	-	35,492	-	14,144	49,636
purchase	-	4,096	-	14,144	18,240
transfer from intangible assets under development	-	31,396	-	-	31,396
Decrease	-	-	-	-31,395	-31,395
transfer to licences and software	-	-	-	-31,395	-31,395
Amortisation charge	-	-24,399	-2	-	-24,401
Net carrying amount as at December 31st 2020	**973**	**97,926**	**62**	**11,941**	**110,902**
As at December 31st 2020					
Gross carrying amount	973	373,872	86	11,941	386,872
Amortisation	-	-275,946	-24	-	-275,970
Net carrying amount as at December 31st 2020	**973**	**97,926**	**62**	**11,941**	**110,902**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

29. Property, plant and equipment

Item	December 31st 2021	December 31st 2020
Property, plant and equipment, including:	81,520	79,838
land	719	742
buildings and premises	20,232	20,945
leasehold improvements	22,093	24,265
computer hardware and technical equipment	35,835	31,470
vehicles	381	115
other property, plant and equipment	2,260	2,301
Property, plant and equipment under construction	2,562	4,640
Advance payments	-	173
Total	**84,082**	**84,651**

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

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Change in property, plant and equipment

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
As at January 1st 2021						
Gross carrying amount	32,839	69,561	114,102	4,640	173	221,315
Depreciation	-11,152	-45,296	-80,216	-	-	-136,664
Net carrying amount	**21,687**	**24,265**	**33,886**	**4,640**	**173**	**84,651**
Period ending December 31st 2021						
Net carrying amount at beginning of year	21,687	24,265	33,886	4,640	173	84,651
Increase:	69	1,309	13,923	2,922	-	18,223
purchases	69	-	10,232	2,922	-	13,223
transfer from property, plant and equipment	-	1,309	3,691	-	-	5,000
Decrease:	-	-3,142	-17,275	-5,000	-173	-25,590
retirement/sale	-	-3,142	-17,275	-	-173	-20,590
transfer to property, plant and equipment	-	-	-	-5,000	-	-5,000
Depreciation charge	-805	-3,439	-9,259	-	-	-13,503
Reversal of depreciation charge due to retirement/sale	-	3,098	17,174	-	-	20,272
Other	-	2	27	-	-	29
Net carrying amount as at December 31st 2021	**20,951**	**22,093**	**38,476**	**2,562**	**-**	**84,082**
As at December 31st 2021						
Gross carrying amount	32,908	67,728	110,750	2,562	-	213,948
Depreciation	-11,957	-45,635	-72,274	-	-	-129,866
Net carrying amount	**20,951**	**22,093**	**38,476**	**2,562**	**-**	**84,082**

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Item	Land and buildings	Leasehold improvements	Technical equipment, vehicles and other equipment	Property, plant and equipment under construction	Advance payments	Total
As at January 1st 2020						
Gross carrying amount	32,106	70,276	113,441	3,827	-	219,650
Depreciation	-10,365	-43,029	-88,513	-	-	-141,907
Net carrying amount	**21,741**	**27,247**	**24,928**	**3,827**	**-**	**77,743**
Period ending December 31st 2020						
Net carrying amount at beginning of year	21,741	27,247	24,928	3,827	-	77,743
Increase:	733	349	18,078	14,261	173	33,594
purchases	-	14	5,697	14,261	173	20,145
transfer from property, plant and equipment	733	335	12,381	-	-	13,449
Decrease:	-	-1,064	-17,417	-13,448	-	-31,929
retirement/sale	-	-1,064	-17,417	-	-	-18,481
transfer to property, plant and equipment	-	-	-	-13,448	-	-13,448
Depreciation charge	-787	-3,331	-8,843	-	-	-12,961
Reversal of depreciation charge due to retirement/sale	-	1,064	17,140	-	-	18,204
Net carrying amount as at December 31st 2020	**21,687**	**24,265**	**33,886**	**4,640**	**173**	**84,651**
As at December 31st 2020						
Gross carrying amount	32,839	69,561	114,102	4,640	173	221,315
Depreciation	-11,152	-45,296	-80,216	-	-	-136,664
Net carrying amount	**21,687**	**24,265**	**33,886**	**4,640**	**173**	**84,651**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

30. Right of use – leases

Item	December 31st 2021	December 31st 2020
Real property	77,305	66,430
Vehicles	305	385
Land	928	981
Total	**78,538**	**67,796**

Change in right-of-use assets – leases

Change in right-of-use asset	Real property and land	Vehicles	Total
As at January 1st 2021			
Gross carrying amount	98,672	964	99,636
Depreciation	- 31,261	- 580	- 31,841
Net carrying amount	**67,411**	**384**	**67,795**
Net carrying amount at beginning of year	67,411	384	67,795
Increase	26,135	213	26,348
Decrease	- 4,548	-	- 4,548
Depreciation charge	- 14,848	- 292	- 15,140
Reversal of depreciation charge	4,083	-	4,083
Gross carrying amount at December 31st 2021	**78,233**	**305**	**78,538**
As at December 31st 2021			
Gross carrying amount	120,259	1,177	121,436
Depreciation	- 42,026	- 872	- 42,898
Net carrying amount	**78,233**	**305**	**78,538**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Change in right-of-use asset	Real property and land	Vehicles	Total
As at January 1st 2020			
Gross carrying amount	95,944	1,167	97,111
Depreciation	- 16,958	-415	- 17,373
Net carrying amount	**78,986**	**752**	**79,738**
Net carrying amount at beginning of year	78,986	752	79,738
Increase	3,805	32	3,837
Decrease	- 919	-153	- 1,072
Depreciation charge	- 15,254	-288	- 15,542
Reversal of depreciation charge	793	42	835
Gross carrying amount at December 31st 2020	**67,411**	**385**	**67,796**
As at December 31st 2020			
Gross carrying amount	98,830	1,046	99,876
Depreciation	- 31,419	- 661	- 32,080
Net carrying amount	**67,411**	**385**	**67,796**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

31. Other assets

Item	December 31st 2021	December 31st 2020
Up-front expenses	8,903	7,715
Cash surplus	2,151	1,307
Interbank settlements	-	1,733
Payment card settlements	4,949	251
Assorted debtors	225,424	287,165
Right of perpetual usufruct of land	1,451	823
Public charges	968	1,039
Accrued income	14,128	15,674
Non-contractual receivables under cancelled foreign currency loan agreements	2,396	-
Assets held for sale	1,054	2,102
Other	6,031	1,522
Total	**267,455**	**319,331**

32. 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
Total	**420,389**	**732,743**

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
Total	**420,389**	**732,743**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

33. Amounts due to clients

Item	December 31st 2021	December 31st 2020
Retail clients	8,515,701	9,380,943
current/checking accounts	4,942,698	5,206,561
term deposits	3,573,003	4,174,382
Institutional clients	7,799,099	6,305,999
current/checking accounts	6,255,578	5,126,798
term deposits	1,543,521	1,179,201
Other clients	84,032	72,182
Borrowings from international financial institutions	510,954	715,708
Lending support funds	98,077	85,883
Total	**17,007,863**	**16,560,715**

In 2021 and 2020, the Group 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	12,620,948	11,583,791
over 1 month to 3 months	1,669,187	1,646,210
over 3 months to 6 months	1,176,370	1,202,692
over 6 months to 12 months	641,283	834,411
from 1 to 5 years	764,593	1,113,773
over 5 years	135,482	179,838
Total	**17,007,863**	**16,560,715**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

34. 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	7 years (with early repayment option after 5 years)	34,214	34,889	34,214	34,884
AA2	PLN	6M WIBOR + margin (six-month	7 years (with early repayment option after 5 years)	65,786	66,347	65,786	66,259
P	PLN	6M WIBOR + margin (six-month	10 years (with early repayment option after 5 years)	150,000	151,814	150,000	151,834
R1	PLN	6M WIBOR + margin (six-month	10 years (with early repayment option after 5 years)	83,000	83,572	83,000	83,566
W	PLN	6M WIBOR + margin (six-month	7 years (with early repayment option after 5 years)	32,500	32,485	32,500	32,453
Total				**365,500**	**369,107**	**365,500**	**368,996**

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35. Provisions

Item	December 31st 2021	December 31st 2020
Provisions for contingent liabilities, including:	29,347	29,653
open lines of credit	15,914	19,313
guarantees	13,433	10,340
Provision for employee benefits – retirement and disability benefits	3,794	3,650
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	8,564	7,287
Total	**450,803**	**418,534**

Change in provisions

Item	December 31st 2021	December 31st 2020
Provisions for contingent liabilities		
At beginning of period	**29,653**	**27,461**
recognition of provisions for impairment of off-balance-sheet liabilities	81,145	69,108
reversal of provisions for impairment of off-balance-sheet liabilities	- 81,451	-66,916
other	-	-
At end of period	**29,347**	**29,653**
Provisions for employee benefits		
At beginning of period	**3,650**	**3,322**
recognition of provisions	471	638
use of provisions	- 327	-310
At end of period	**3,794**	**3,650**
Provision for legal risk related to foreign currency mortgage loans		
At beginning of period	**376,410**	**23,181**
recognition of provisions	53,065	353,021
accounting for provision discount	-	614
exchange differences on measurement of provisions	25,443	-
use of provisions	- 3,443	-395
reversal of provisions	- 32,282	-11
decrease in translation reserves	- 11,047	-
At end of period	**408,146**	**376,410**

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Provision for refund of commission fees due to early loan repayment		
At beginning of period	**1,534**	**1,183**
recognition of provisions	184	1,269
use of provisions	- 267	- 918
reversal of provisions	- 499	-
At end of period	**952**	**1,534**
Provision for other liabilities and claims		
At beginning of period	**7,287**	**2,558**
recognition of provisions	1,775	10,565
use of provisions	- 32	-3,700
reversal of provisions	- 466	-2,136
At end of period	**8,564**	**7,287**
Total provisions at end of period	**450,803**	**418,534**

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

Item	December 31st 2021	December 31st 2020
Wage growth rate	**2.5%-5% (0% in 2021)**	**2.5%-3.5% (0% in 2020)**
Interest rate for future obligations due to:		
retirement and disability benefits	1.5%-3.9%	1.5%
Amounts recognised in comprehensive income with respect to the defined benefit plans:		
Cost of benefits:		
Current service cost	893	536
Past service cost and (gain) loss on settlement	-	295
Net interest expense	124	120
Components of defined benefit plan costs recognised in profit or loss	**1,017**	**951**
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
Components of defined benefit plan costs recognised in other comprehensive income	**128**	**242**
Total	**1,145**	**1,193**

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Defined benefit obligations

Item	December 31st 2021	December 31st 2020
Amounts recognised in comprehensive income with respect to the defined benefit plans:		
At beginning of period	**3,650**	**3,322**
Current service cost	307	354
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
At end of period	**3,794**	**3,650**

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 3.9% 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 1.5% 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.

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The Group 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	818	687
from 1 to 5 years	795	872
from 5 to 10 years	1,118	885
from 10 to 20 years	905	971
over 20 years	158	235
Total	**3,794**	**3,650**

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 amounts due to clients	6,150	up to 1 year	4,820	up to 1 year
Provision for negative balances in clients' accounts resulting from market settlement of transactions	50	up to 1 year	50	up to 1 year
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
Total	**417,662**		**385,231**	

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.

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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 fullings. 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
The Group as respondent	213,238	91,369
The Group as claimant	108,880	93,506

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.

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36. 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	**120,456**	**107,643**
Change, including:	**30,141**	**12,813**
impairment losses on receivables	5,957	10,722
valuation of assets	18,493	- 15,478
deferred expenses	- 2,771	- 3,314
interest received on securities previously purchased by the Bank	3,120	- 1,095
other differences, including difference arising from lease contracts	- 1,211	12,326
tax loss	- 144	- 175
commission fees accounted for using effective tax rate	720	1,954
non-depreciated property, plant and equipment covered by investment tax relief	- 383	800
provisions for material, labour and other costs	1,077	2,078
accrued income	5,034	4,746
IBNR recognised as tax-deductible	249	249
At end of period	**150,597**	**120,456**

Deferred tax recognised in revaluation reserve:

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
At beginning of period	**- 15,920**	**- 11,187**
Change due to measurement of assets	22,245	- 4,733
At end of period	**6,325**	**- 15,920**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Deferred tax liabilities arising from:		
accrued income	30,744	35,778
increase on valuation of assets	39,398	43,624
non-depreciated property, plant and equipment covered by investment tax relief	47,957	11,889
lease receivables	-	24,713
paid commission fees to be accounted for using effective tax rate	6,453	3,233
IBNR recognised as tax-deductible in previous years	746	994
other differences	-	341
Total	**125,298**	**120,572**

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
Deferred tax assets due to:		
non-deductible impairment losses	134,014	125,798
received commission fees to be accounted for using effective tax rate	22,387	18,435
non-current assets from lease contracts	-	28,470
provisions for material, labour and other costs	6,580	7,764
deferred expenses	59,929	19,205
interest received on securities previously purchased by the Bank	6,423	7,355
decrease on valuation of assets	38,857	24,589
tax loss	-	144
other temporary differences	7,705	9,268
Total	**275,895**	**241,028**

The Group performed a sensitivity analysis of recoverability of deferred tax assets. As at December 31st 2021, deferred tax assets were PLN 275,895 thousand, of which the most significant items were recognised impairment losses on non-performing credit exposures of PLN 134,014 thousand and valuation of non-current and current assets of PLN 38,583 thousand.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

Change in deferred tax in the period

Item	January 1st – December 31st 2021	January 1st – December 31st 2020
At beginning of period	**120,456**	**107,643**
Change in deductible temporary differences	34,869	32,781
Change in taxable temporary differences	- 4,728	- 19,968
Total change, including:	**30,141**	**12,813**
change in revaluation reserve	22,245	- 4,732
change recognised in profit or loss	7,896	17,547
At end of period	**150,597**	**120,456**

37. Lease liabilities

As a lessee, the Group 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 2020 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 Group 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 and land	Vehicles	Total
up to 1 year	2,485	202	2,687
from 1 to 5 years	22,412	177	22,589
over 5 years	55,894	-	55,894
Total	**80,791**	**379**	**81,170**

Item	December 31st 2020		
	Properties and land	Vehicles	Total
up to 1 year	2,495	209	2,704
from 1 to 5 years	7,235	207	7,442
over 5 years	61,083	-	61,083
Total	**70,813**	**416**	**71,229**

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

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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 Group 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	1,602	-	1,602
Total	**1,696**	**211**	**1,907**

As at December 31st 2020:

Item	Properties	Vehicles	Total
low-value leases	324	466	790
short-term leases	1,388	-	1,388
Total	**1,712**	**466**	**2,178**

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38. Other liabilities

Item	December 31st 2021	December 31st 2020
Interbank settlements	47,301	22,760
Amounts due to DM BOŚ counterparties	72,887	129,581
Accrued expenses and deferred income	47,258	51,231
Public charges	19,354	18,494
Trade liabilities	71,782	65,584
Deferred commissions	7,749	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	11,368	9,548
Total	**282,144**	**311,526**

39. Contingent assets and liabilities

Item	December 31st 2021	December 31st 2020
Contingent liabilities:	**3,264,122**	**2,863,156**
Financial, including:	2,814,089	2,490,309
open credit lines, including:	2,793,138	2,464,889
revocable	2,337,580	2,130,346
irrevocable	455,558	334,543
open import letters of credit	20,951	20,250
loan commitments, including:	-	5,170
irrevocable	-	5,170
Guarantees, including:	450,033	372,847
credit repayment sureties and guarantees	12,739	12,739
performance bonds	437,294	360,108
Contingent assets:	**2,143,824**	**915,199**
Financial, including:	344,955	-
open lines of credit	344,955	-
Guarantees	1,781,345	899,975
Other	17,524	15,224
Total contingent assets and contingent liabilities	**5,407,946**	**3,778,355**

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40. Brokerage business

The brokerage business is conducted by Dom Maklerski BOŚ S.A.

Below is presented data on financial instruments held in clients' securities accounts, at fair value.

Item	December 31st 2021	December 31st 2020
Securities in book-entry form admitted to trading on a regulated market		
Listed shares and rights to listed shares recorded in securities accounts	10,306,169	7,010,655
Other securities recorded in clients' securities accounts	1,135,426	498,103
Clients' other financial instruments	274,510	234,910
Property rights listed on the Polish Power Exchange	597,508	476,337
Securities held in the form of registers	304,168	909,164
shares	-	248,950
bonds	304,168	660,214
Total clients' securities	**12,617,781**	**9,126,169**

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41. 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	O	ordinary	236,700	2,367	cash	09-01-91	01-01-92
B	O	ordinary	1,263,300	12,633	cash	11-03-92	01-01-93
C	O	ordinary	477,600	4,776	cash	30-12-92	01-01-93
C	O	ordinary	22,400	224	in-kind	30-12-92	01-01-93
D	O	ordinary	1,300,000	13,000	cash	30-12-93	01-01-94
E	O	ordinary	647,300	6,473	cash	30-06-94	01-01-95
E	O	ordinary	15,500	155	in-kind contribution	30-06-94	01-01-95
E	O	ordinary	37,200	372	in-kind contribution	30-06-94	01-01-95
F	O	ordinary	1,500,000	15,000	cash	30-12-94	01-01-95
G	O	ordinary	1,260,000	12,600	cash	30-06-95	01-01-96
H	O	ordinary	670,000	6,700	cash	30-06-95	01-01-96
I	O	ordinary	70,000	700	cash	30-06-95	01-01-96
J	O	ordinary	1,055,000	10,550	cash	21-06-96	01-01-96
K	O	ordinary	945,000	9,450	cash	21-06-96	01-01-96
L	O	ordinary	1,200,000	12,000	cash	29-11-96	01-01-96
M	O	ordinary	2,500,000	25,000	cash	07-05-98	01-01-97
N	O	ordinary	1,853,000	18,530	cash	13-06-07	01-01-07
O	O	ordinary	1,320,245	13,202	in-kind	25-06-10	01-01-10
P	O	ordinary	6,500,000	65,000	cash	15-06-12	01-01-11
U	O	ordinary	40,000,000	400,000	cash	12-07-17	01-01-16
V	O	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.

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

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

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	53,951,960	58.05	53,951,960	58.05
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Fund for Investments of	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

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.

42. 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
Total revaluation reserve	**- 26,962**	**67,869**

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Change in revaluation reserve

Item	
As at January 1st 2021	**67,869**
Increase due to:	249,345
measurement of investment securities	249,345
Decrease due to:	-366,421
measurement of investment securities	-366,111
remeasurement of employee benefit obligations	- 310
Deferred income tax	22,245
As at December 31st 2021	**-26,962**
As at January 1st 2020	**47,695**
Increase due to:	298,690
measurement of investment securities	298,690
Decrease due to:	-273,783
measurement of investment securities	-273,541
remeasurement of employee benefit obligations	-242
Deferred income tax	-4,733
As at December 31st 2020	**67,869**

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43. Retained earnings

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

Item	December 31st 2021	December 31st 2020
Other statutory reserve funds	**398,628**	**776,085**
statutory	44,000	44,000
created pursuant to the Articles of Association above the statutory minimum	350,303	727,760
other	4,325	4,325
Other capital reserves	**23,605**	**23,605**
brokerage fund	22,249	22,249
other	1,356	1,356
General risk fund	**48,302**	**48,302**
Undistributed profit (loss)	**- 38,814**	**- 463,727**
retained earnings	- 86,270	- 156,793
net profit (loss) for current period	47,456	- 306,934
Total retained earnings	**431,721**	**384,265**

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.

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44. Hedge accounting

Hedge accounting policies

In the Group, hedge accounting was applied by the Bank only.

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 Group.

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 Group 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*\
Hedging instruments						
Interest Rate Swap (IRS) – negative valuation	9,121	258,000	11,587	24,497	258,000	22,083
Hedged items						
Treasury bonds – positive valuation	238,620	240,000	-6,490	273,804	240,000	26,415
Total effect on profit or loss			**5,097**			**4,332**

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

45. 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 an 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;

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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.

46. 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 22)	361,581	266,552
Deposits with other banks, recognised as cash equivalents (Note 23)	344,762	33,328
Investment securities (Note 25)	2,899,584	2,179,952
Total	**3,605,927**	**2,479,832**

The balance of cash and cash equivalents includes the obligatory reserve maintained 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.

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Reconciliation 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	- 245,131	10,117
Change in deposits with other banks, recognised as cash equivalents	311,434	- 36,886
Total change in deposits with other banks and amounts due from other banks	**66,303**	**- 26,769**
Change in investment securities	262,483	- 2,069,336
Change in investment securities recognised in cash and cash equivalents	719,632	860,117
Purchase of securities measured at amortised cost	70,595	160,586
Cash receipts from redemption of securities measured at amortised cost	- 28,287	-
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
Total change in investment securities	**912,476**	**- 1,026,215**
Change in other assets and income tax	29,940	- 145,828
Deferred income tax expense disclosed in the statement of profit or loss	7,896	17,547
Deferred income tax on measurement of investment securities	22,245	- 4,732
Non-monetary changes in intangible assets and property, plant and equipment	475	34
Change in other assets and income tax	**60,556**	**- 132,979**
Change in provisions	32,269	360,829
Effect of actuarial valuation on revaluation reserve	- 310	- 243
Total change in provisions	**31,959**	**360,586**
Change in other liabilities and income tax	- 21,675	115,790
Current income tax expense	- 39,709	- 38,728
Income tax paid	31,715	55,190
Total change in other liabilities and income tax	**- 29,669**	**132,252**
Change in liabilities arising from issue of bank securities and subordinated liabilities	111	- 1,735
Interest paid on bonds issued by the Bank, including:	12,036	14,440
on subordinated bonds	12,036	14,440
Interest accrued on bonds issued by the Bank, including:	- 12,147	-12,705
on subordinated bonds	- 12,147	-12,705

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47. Description of derivative financial instruments and foreign exchange transactions

Foreign exchange and currency derivatives transactions:

Instrument	December 31st 2021	December 31st 2020	December 31st 2021	December 31st 2020	December 31st 2021	December 31st 2020
	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	2,447,091	97	43	7,571,098
Notional amount (PLN thousand)	439,791	672,825	394,672	220,458	110,894	223,494
Fair value (PLN thousand)	- 20,685	-13,833	9,316	872	- 54	88
- positive	839	113	10,083	2,926	75	1,228
- negative	- 21,524	- 13,946	- 1,112	- 2,054	- 129	- 989

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	

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Interest rate derivative transactions:

Instrument	December	December	December	December	December	December 31st	December	December 31st
	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	160	207	2	2	-	-	-	-
Notional amount (PLN thousand)	3,714,400	5,195,860	258,000	258,000	-	-	-	-

Fair value (PLN thousand)	32,654	-4,710	9,121	-24,497	-	-	-	-
- positive	103,851	73,735	9,121	-	-	-	-	-
- negative	- 71,378	-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	

Forward contracts and options

Instrument	December 31st	December 31st	December 31st	December 31st	December 31st	December 31st 2020
	Futures contracts for shares and stock indices, foreign exchange rates		Forward contracts for stock indices, exchange rates, commodities		Contracts for difference (CFDs)	
Description of the instrument	A futures share/stock market indices contracts is a standardized transaction that requires cash settlement in the future or the underlying asset's delivery, depending on the share price or the value of the index, foreign exchange rate and position taken.		Forward contracts for sale and purchase of various currencies with determined future settlement date. This type of instrument allows transacting parties to make money on interest rate differences between the currencies in a pair. A standard forward contract is a transaction where the settlement date falls more than two days from the transaction date (a two-day settlement period is typical for spot transactions).		Contracts for difference (CFDs) are derivative instruments. This means that their value depends directly on the value of the underlying instrument on which they are based. The underlying instruments may be both sport market instruments, such as currency pairs, gold or silver, and forward market instruments, such as index futures offered on global exchanges, commodity exchange derivatives, etc. CFDs allow transacting parties to take long or short positions and the outcome is calculated on the basis of the difference in exchange rates only. Trading CFDs therefore does not involve taking a physical position.	
Purpose of acquisition or issue	for trading		for trading		for trading	
Number of transactions	1,534	9,183	142,200	1,709,000	165,650	97,470
Notional amount (PLN thousand)	71,234	83,322	21,887	7,355	810,776	536,623
Fair value (PLN thousand)	-	-	-	-	-	-
- positive	1,706	892	-	-	20,522	19,402
- negative	- 133	-1,004	- 1,353	-141	- 4,031	-3,969
Future income / payments	Variable		Variable		Variable	
Maturity	Variable		Variable		Variable	
Early settlement	Yes		Yes		Yes	

Price/ Price range	None	None	None
Exchange or conversion into another asset/ liability	None	None	None
Additional collateral	None	None	None
Other terms	None	None	None
Type of risk	Operational risk, equity price risk, currency risk	Operational risk, currency risk, equity price risk, commodity price risk	Operational risk, currency risk, interest rate risk, commodities risk, equity risk

Foreign exchange and currency derivative transactions:

Item	December 31st 2021	December 31st 2020
Notional value	**945,357**	**1,116,777**
Total foreign exchange and currency derivative transactions:		
assets	10,997	4,267
liabilities	- 22,765	-16,989

Interest rate derivative transactions:

Item	December 31st 2021	December 31st 2020
Notional value	**3,972,400**	**5,453,860**
Total interest rate derivative transactions:		
assets	112,972	73,735
liabilities	- 71,378	-105,135

Forward contracts and options:

Item	December 31st 2021	December 31st 2020
Notional value	**903,898**	**627,300**
Total forward and option contracts:		
assets	22,227	20,294
liabilities	- 5,516	-5,114

Total derivative financial instruments:

Item	December 31st 2021	December 31st 2020
Notional value	**5,821,655**	**7,197,937**
Total derivative financial instruments:		
assets	146,197	98,296
liabilities	- 99,659	-127,238

Offsetting financial assets and financial liabilities

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

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48. 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 December 31st 2021	Fair value December 31st 2021	Carrying amount December 31st 2020	Fair value December 31st 2020
FINANCIAL ASSETS				
Amounts due from other banks	**400,747**	**402,886**	**155,616**	**158,813**
Amounts due from clients including:	**11,855,647**	**11,814,926**	**11,887,297**	**11,751,753**
amounts due in PLN	9,353,758	9,372,279	9,080,574	8,993,394
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
Treasury securities	1,373,528	1,362,035	1,397,710	1,472,158
other	208,838	182,323	137,529	143,213
FINANCIAL LIABILITIES				
Amounts due to central bank and other banks	**420,389**	**420,389**	**732,743**	**732,743**
Amounts due to clients, including:	**17,007,863**	**17,015,812**	**16,560,715**	**16,583,462**
institutional clients	7,897,176	7,897,249	6,391,882	6,391,627
retail clients	8,515,701	8,523,304	9,380,943	9,403,399
other clients	84,032	84,032	72,182	72,182
international financial institutions	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.

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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.

49. 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 Group takes into account the adjustment for counterparty credit risk.

As at December 31st 2021 and December 31st 2020, the Group 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. Additionally, in the portfolio of assets available for sale DM BOŚ holds shares of an entity for which there is no active market. 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). In the case of DM BOŚ are financial instruments acquired with the intention to introduce them to regulated trading. Fair value is determined based on an analysis of the company's financial position, taking into account impairment losses.

Financial instruments by fair-value hierarchy level:

December 31st 2021	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**18,692**	**137,013**	**-**	**155,705**
debt securities	5,321	-	-	5,321
equity securities	13,261	47	-	13,308
derivative financial instruments	110	136,966	-	137,076
Derivative hedging instruments	**-**	**9,121**	**-**	**9,121**
Investment securities measured at fair value through other comprehensive income and profit or loss	**4,379,989**	**129,229**	**1,017,347**	**5,526,565**
debt securities	4,361,446	129,229	950,407	5,441,082
equity securities	18,543	-	66,940	85,483
Amounts due from other banks	**-**	**-**	**402,886**	**402,886**
Amounts due from clients	**-**	**-**	**11,814,926**	**11,814,926**
Investment securities measured at amortised cost	**1,544,358**	**-**	**-**	**1,544,358**
Total	**5,943,039**	**275,363**	**13,235,159**	**19,453,561**

December 31st 2021	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	**131**	**99,528**	**-**	**99,659**
derivative financial instruments	131	99,528	-	99,659
Derivative financial instruments	**-**	**-**	**-**	**-**
Derivative hedging instruments	**-**	**-**	**-**	**-**
Amounts due to other banks	**-**	**-**	**420,389**	**420,389**
Amounts due to clients	**-**	**-**	**17,015,812**	**17,015,812**
Subordinated liabilities	**-**	**-**	**356,419**	**356,419**
Total	**131**	**99,528**	**17,792,620**	**17,892,279**

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

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December 31st 2020	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**15,217**	**97,917**	**-**	**113,134**
debt securities	805	-	-	805
equity securities	13,985	47	-	14,032
derivative financial instruments	427	97,870	-	98,297
Derivative hedging instruments	**-**	**-**	**-**	**-**
Investment securities measured at fair value through other comprehensive income and profit or loss	**4,385,236**	**153,634**	**1,297,305**	**5,836,175**
debt securities	4,366,693	153,634	1,230,368	5,750,695
equity securities	18,543	-	66,937	85,480
Amounts due from other banks	**-**	**-**	**158,813**	**158,813**
Amounts due from clients	**-**	**-**	**11,751,753**	**11,751,753**
Investment securities measured at amortised cost	**1,615,371**	**-**	**-**	**1,615,371**
Total	**6,015,824**	**251,551**	**13,207,871**	**19,475,246**

December 31st 2020	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	**790**	**102,526**	**-**	**103,316**
derivative financial instruments	215	102,526	-	102,741
equity securities	575	-	-	575
Derivative hedging instruments	**-**	**24,497**	**-**	**24,497**
Amounts due to other banks	**-**	**-**	**732,743**	**732,743**
Amounts due to clients	**-**	**-**	**16,583,462**	**16,583,462**
Subordinated liabilities	**-**	**-**	**351,812**	**351,812**
Total	**790**	**127,023**	**17,668,017**	**17,795,830**

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

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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).

50. 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 is 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. brokerage business,
5. 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 1-4, 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 consolidated financial results of the BOŚ Group for the periods ended December 31st 2021 and December 31st 2020 attributable to the segments.

No.	Selected items of the statement of profit and loss for the 12 months ended December 31st 2021	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	BROKERAGE BUSINESS	OTHER (NOT ALLOCATED TO SEGMENTS)	GROUP
I.	**Net interest income**	**168,902**	**55,062**	**150,858**	**2,089**	**- 826**	**376,085**
1.	Interest and similar income, including:	294,640	137,282	9,450	3,441	3	444,816
	transactions with external clients	268,142	89,114	74,720	254	-	432,230
	transactions with other segments	26,498	48,168	- 65,270	3,187	3	12,586
2.	Interest expense and similar charges, including:	- 125,738	- 82,220	141,408	- 1,352	- 829	- 68,731
	transactions with external clients	- 4,542	- 27,498	- 23,731	- 374	-	- 56,145
	transactions with other segments	- 121,196	- 54,722	165,139	- 978	- 829	- 12,586
II.	**Net fee and commission income**	**63,134**	**7,331**	**-**	**71,965**	**- 576**	**141,854**
III.	Dividend income	241	-	6,286	203	-	6,730
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	24	52	21,404	46,153	-	67,633
V.	Gain (loss) on hedge accounting	-	-	764	-	-	764
VI.	Gain (loss) on investment securities	-	-	197	-	-	197
VII.	Gain (loss) on foreign exchange transactions	18,361	14,070	- 7,308	183	- 6	25,300
VIII.	**Net banking income**	**250,662**	**76,515**	**172,201**	**120,593**	**- 1,408**	**618,563**
IX.	Net other income and expenses	- 9,177	- 5,613	11,047	- 6,645	1,673	- 8,715
X.	Effect of legal risk of mortgage loans denominated in foreign currencies	-	- 20,783	-	-	-	- 20,783
XI.	Net impairment losses	- 38,396	- 78,008	2,324	-	- 14	- 114,094
XII.	**Net finance income (costs)**	**203,089**	**- 27,889**	**185,572**	**113,948**	**251**	**474,971**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

1.	Direct costs	- 34,584	- 23,006	- 2,564	- 73,653	- 1,190	- 134,997
	Profit (loss) after direct costs	**168,505**	**- 50,895**	**183,008**	**40,295**	**- 939**	**339,974**
2.	Indirect costs and mutual services	- 74,746	- 78,323	- 14,477	-	-	- 167,546
	Profit (loss) after direct and indirect costs	**93,759**	**- 129,218**	**168,531**	**40,295**	**- 939**	**172,428**
3.	Amortisation/depreciation	- 20,361	- 23,499	- 2,083	- 8,196	- 1,704	- 55,843
4.	Other costs (taxes, BFG, PFSA)	- 18,959	- 14,061	- 499	- 3,513	- 284	- 37,316
XIII.	**PROFIT (LOSS) BEFORE TAX**	**54,439**	**- 166,778**	**165,949**	**28,586**	**- 2,927**	**79,269**
XIV.	Allocated profit (loss) of ALM	90,014	53,971	- 143,985	-	-	-
XV.	**Gross profit (loss) after ALM allocation**	**144,453**	**- 112,807**	**21,964**	**28,586**	**- 2,927**	**79,269**
XVI.	Income tax expense						- 31,813
XVII.	**NET PROFIT (LOSS)**						**47,456**
	Segment assets	**8,647,203**	**3,275,293**	**8,142,876**	**309,601**	**210,767**	**20,585,740**
	including amounts due from banks and clients	8,542,836	3,275,293	423,220	12,407	2,638	12,256,394
	Segment liabilities	**6,700,204**	**7,397,756**	**3,274,243**	**2,434,085**	**779,452**	**20,585,740**
	of which amounts due to banks and clients	6,695,198	7,397,756	1,029,420	2,218,149	87,729	17,428,252
	Expenditure on property, plant and equipment	**16,901**	**15,584**	**2,201**	**8,254**	**-**	**42,940**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

No.	Selected items of the statement of profit and loss for the 12 months ended December 31st 2020	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	BROKERAGE BUSINESS	OTHER (NOT ALLOCATED TO SEGMENTS)	GROUP
I.	**Net interest income**	**202,798**	**57,102**	**110,559**	**1,504**	**- 983**	**370,980**
1.	Interest and similar income, including:	376,436	226,171	- 75,916	3,132	18	529,841
	transactions with external clients	315,443	108,232	94,414	493	-	518,582
	transactions with other segments	60,993	117,939	- 170,330	2,639	18	11,259
2.	Interest expense and similar charges, including:	- 173,638	- 169,069	186,475	- 1,628	- 1,001	- 158,861
	transactions with external clients	- 22,874	- 96,298	- 27,763	- 667	-	- 147,602
	transactions with other segments	- 150,764	- 72,771	214,238	- 961	- 1,001	- 11,259
II.	**Net fee and commission income**	**52,198**	**8,670**	**2**	**74,636**	**- 916**	**134,590**
III.	Dividend income	679	-	5,526	57	-	6,262
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	15	18	17,613	56,815	-	74,461
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	13,386	2,981	9,905	142	- 18	26,396
VIII.	**Net banking income**	**269,076**	**68,771**	**145,806**	**133,154**	**- 1,917**	**614,890**
IX.	Net other income and expenses	- 259	594	- 6	- 8,124	316	- 7,479
X.	Effect of legal risk of mortgage loans denominated in foreign currencies	-	- 353,010	-	-	-	- 353,010
XI.	Net impairment losses	- 110,562	- 50,718	- 2,513	-	-	- 163,793
XII.	**Net finance income (costs)**	**158,255**	**- 334,363**	**143,287**	**125,030**	**- 1,601**	**90,608**
1.	Direct costs	- 25,289	- 23,229	-	- 69,854	- 1,329	- 119,701

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

	Profit (loss) after direct costs	**132,966**	**- 357,592**	**143,287**	**55,176**	**- 2,930**	**- 29,093**
2.	Indirect costs and mutual services	- 71,172	- 73,768	- 15,141	-	-	- 160,081
	Profit (loss) after direct and indirect costs	**61,794**	**- 431,360**	**128,146**	**55,176**	**- 2,930**	**- 189,174**
3.	Amortisation/depreciation	- 18,453	- 22,776	- 1,929	- 8,043	- 1,704	- 52,905
4.	Other costs (taxes, BFG, PFSA)	- 21,793	- 17,203	- 216	- 4,186	- 276	- 43,674
XIII.	**PROFIT (LOSS) BEFORE TAX**	**21,548**	**- 471,339**	**126,001**	**42,947**	**- 4,910**	**- 285,753**
XIV.	Allocated profit (loss) of ALM	69,595	56,596	- 126,191	-	-	-
XV.	**GROSS PROFIT (LOSS) AFTER ALM ALLOCATION**	**91,143**	**- 414,743**	**- 190**	**42,947**	**- 4,910**	**- 285,753**
XVI.	Income tax expense						- 21,181
XVII.	**Net profit (loss)**						**- 306,934**
	Segment assets	**8,547,095**	**3,462,215**	**7,751,346**	**364,708**	**380,465**	**20,505,829**
	including amounts due from banks and clients	8,388,076	3,462,215	173,719	16,304	2,599	12,042,913
	Segment liabilities	**5,859,406**	**8,414,930**	**3,858,283**	**1,687,448**	**685,762**	**20,505,829**
	of which amounts due to banks and clients	5,848,554	8,414,930	1,534,334	1,420,877	74,763	17,293,458
	Expenditure on property, plant and equipment	**14,925**	**15,226**	**1,920**	**6,382**	**21**	**38,474**

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

51. 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 Prosument programme 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.

Loans to and deposits from members of the Management Board and the Supervisory Board of the Group

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
Total	**1,036**	**2,670**

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.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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 [7]	68	116	-	-
Leszek Banaszak [2]	133	25	-	-
Piotr Wróbel [1]	133	50	-	-
Marzena Koczut [10]	-	21	-	-
Robert Czarnecki [2]	132	25	-	-
Przemysław Bednarski [4]	-	25	-	-
Marcin Jastrzębski [3]	133	43	-	-
Piotr Sadownik [8]	-	107	-	-
Emil Ślązak [13]	161	75	-	-
Wojciech Wardacki [11]	93	181	-	-
Iwona Duda [5]	-	47	-	-
Ireneusz Purgacz	149	131	-	-
Radosław Rasała [9]	-	78	-	-
Paweł Sałek	152	131	-	-
Katarzyna Lewandowska [6]	-	66	-	-
Zbigniew Dynak [12]	69	-	-	-
Total [14]	**1,354**	**1,247**	**-**	**-**

[1] Member of the Supervisory Board from August 5th 2020
[2] Member of the Supervisory Board from October 19th 2020
[3] Member of the Supervisory Board from August 25th 2020
[4] Member of the Supervisory Board from August 5th 2020 to October 17th 2020
[5] Member of the Supervisory Board until May 12th 2020
[6] Member of the Supervisory Board until June 15th 2020
[7] Member of the Supervisory Board until October 19th 2020 and from June 23rd 2021
[8] Member of the Supervisory Board until November 6th 2020
[9] Member of the Supervisory Board until August 5th 2020
[10] 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)
[11] Member of the Supervisory Board until June 23rd 2021
[12] Member of the Supervisory Board from June 23rd 2021
[13] From June 18th 2020 to November 9th 2020, delegated to serve as acting President of the Management Board
[14] 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.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

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 [1]	637	93	-	-
Bogusław Białowąs [2]	181	653	-	-
Marzena Koczut [5]	540	16	-	-
Konrad Raczkowski [3]	-	89	-	-
Arkadiusz Garbarczyk	817	853	-	-
Emil Ślązak [4]	-	254	-	-
Jerzy Zań	523	526	-	-
Robert Kasprzak [6]	454	-		
Total	**3,152**	**2,484**	**-**	**-**
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	-	-

[1] Member of the Management Board from November 9th 2020
[2] Member of the Management Board until June 17th 2020
[3] Member of the Management Board until June 18th 2019
[4] Member of the Management Board from June 18th to November 9th 2020
[5] Member of the Management Board from December 21st 2020
[6] 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.

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)

52. Disposal, liquidation and merger of companies

The Bank did not divest, liquidate or merge any subsidiaries in 2021.

53. 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.

54. Events after the reporting date

Compromise and Settlement Programme

On January 31st 2022, the Bank launched the Compromise and Settlement Programme for clients repaying foreign currency-linked mortgage loans under rules proposed by the Chairman of the Financial Supervision Commission. For more information on the Programme, see Note 2. 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 consolidated 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 Group's credit exposure to customers from Ukraine was PLN 3.6 million. As at that date the Group had no credit exposures to customers in Russia and Belarus.

The outbreak of the hostilities does not require any adjustments to the 2021 consolidated 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 consolidated 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 of President of the Management Board	Signed with qualified e-signature
March 30th 2022	Robert Kasprzak	Vice President of the Management Board	Signed with qualified e-signature
March 30th 2022	Marzena Koczut	Vice President of the Management Board	Signed with qualified e-signature
March 30th 2022	Jerzy Zań	Vice President of the Management Board	Signed with qualified e-signature

Signature of the person in charge of bookkeeping:

March 30th 2022	Andrzej Kowalczyk	Director of the Accounting Department	Signed with qualified e-signature

Full-year consolidated financial statements of the BOŚ S.A. Group for the year ended December 31st 2021 (amounts in PLN thousand)