

Letter from the President of the Management Board of Bank Ochrony Środowiska

Ladies and Gentlemen,

On behalf of myself and all members of the Management Board of Bank Ochrony Środowiska, I present to you the annual report outlining the financial results of the BOŚ Group for 2021.

It was the second year of the COVID-19 pandemic that continued to impact the global economy. However, a firm rebound in economic activity was seen from the second quarter on as pandemic restrictions were gradually eased. At the same time, we saw a sharp rise in prices of most commodities in the second half of the year, which, combined with strong demand from the reopening economies, sent inflation around the world to levels not seen in decades. In Poland, inflation reached 8.6% at the end of 2021. This prompted the Monetary Policy Council, which maintained a loose monetary policy for most of last year, to embark on a fairly strict tightening cycle of interest rate hikes in the fourth quarter, which continued into the first months of this year.

Amid the dynamic market environment, the BOŚ Group delivered a net profit of over PLN 47m in 2021 compared with a net loss of PLN 307m reported a year earlier. We recorded improvement in both core business lines: interest income grew to PLN 376m, or 1.4% year on year, while commission income reached PLN 142m and was 5.4% higher than the previous record of 2020.

The net profit earned in 2021 would have been higher if not for the decision to recognise additional provisions of roughly PLN 21m against risks associated with foreign-currency mortgage loans. Let me remind you that provisions for mortgage loans in foreign currencies charged to profit or loss in 2020 were as much as PLN 353m.

The provision for risks related to mortgage loans tied to CHF was PLN 427m at the end of 2021, with the nominal value of the CHF-denominated housing loans at PLN 877m. Thus, BOŚ has one of the highest provision coverage ratios for CHF loans in the sector.

The provisions include the estimated costs of the compromise and settlement programme for clients repaying foreign-currency mortgage loans under rules proposed by the Chairman of the Financial Supervision Authority. We launched the programme in late January of this year.

The improved financial performance in 2021 reflects the development directions for the BOŚ Group outlined in its strategy for 2021–2023, approved in June last year. Our main focus is on deepening our specialisation in advising, arranging and funding environmentally-friendly projects and projects supporting the green transition of businesses and local governments in Poland.

The improvement in the BOŚ Group's financial position was reflected in an upgrade to our rating outlook from Fitch Ratings, which affirmed our rating and raised our outlook from negative to stable in October 2021.

An element of the pursuit of our growth strategy is the ESG strategy unveiled in October last year, which aims to increase the share of green assets in our loan portfolio to 50% in 2023. At the end of 2021, they accounted for 36.9% of the total portfolio. We will no longer finance thermal coal mining projects or new coal-fired units used by conventional, carbon-intensive power generation technologies, in keeping with the approved climate policy. We also plan to reduce our environmental impact, including by cutting our

carbon footprint by 20% on the 2020 level.

In line with the stated strategy, we obtained an ESG rating in December 2021. The ESG score from Sustainalytics places BOŚ in the 18th percentile in the Banking industry and 23rd percentile in the Global Universe which consist of nearly 15,000 companies assessed by the agency.

Looking back at 2021, it is also worth noting our consistent effort to foster the partnership with our majority shareholder, National Fund for Environmental Protection and Water Management (NFOŚiGW), including under the programmes My EV (BOŚ is currently the sole bank operator for the programme) and Clean Air.

We are strengthening our relationship with the European Investment Bank, which provided EUR 75m to BOŚ in October 2021 to fund capital investment projects implemented by small and medium-sized enterprises, most of them dedicated to renewable energy and energy efficiency.

Although the annual report, which I strongly encourage you to read, is a summary of 2021, it must mention the recent tragic developments across our eastern border. A tragedy unprecedented in the post-war history of Europe is unfolding before our eyes, a tragedy of the independent Ukrainian nation who has fallen victim to a brutal assault by Russia, which turned out to be an oppressive authoritarian regime, supported by Belarus. In addition to direct losses and a humanitarian crisis it has caused, the war has a profound impact on the geopolitical situation and the macroeconomic environment, having triggered turmoil across European economies, including Poland, whose scale is still difficult to predict.

Russia's invasion of Ukraine and its dire consequences are bound to provide an additional incentive to ramp up efforts to increase Europe's energy independence through the advancement of green technologies that would help reduce demand for fossil fuels.

Our priority during this challenging time is to ensure the security and continuity of the services we offer. I would like to emphasise with confidence that BOŚ and the banking sector as a whole are very well prepared to deliver on that goal.

I would like to thank all BOŚ Group employees for their everyday commitment and the great attitude they have shown in the face of the pandemic, the war and the refugee crisis, and our Shareholders and Partners for their trust and cooperation.

Yours faithfully,

Wojciech Hann
President of the Management Board of Bank Ochrony Środowiska