

CORPORATE GOVERNANCE STATEMENT

included in the Management Board's Report of BOŚ S.A. in 2018, published on March 14, 2019 in the Annual Report R/2018

(This statement is in line with the requirements of Article 70.1-6, point 5 of the Regulation of the Minister of Finance, dated 29 March 2018, on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states).

1. CORPORATE GOVERNANCE PRINCIPLES

1.1. Corporate governance principles applied by BOŚ S.A. and their public availability

In 2018, BOŚ S.A. followed the corporate governance principles laid down in the "Code of Best Practice for WSE Listed Companies 2016", attached to Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated 13 October 2015, with the exception of the rule described in the point 1.2.

The scope of their application was defined in Resolution No. 20/2016 of the General Meeting of BOŚ S.A., dated 23 June 2016, regarding the scope of application of the corporate governance principles laid down in the "Code of Best Practice for the WSE Listed Companies 2016" by BOŚ S.A. Information about the Bank's application of recommendations and principles described in the "Code of Best Practice for the WSE Listed Companies 2016" was made public through the current report on 24 June 2016.

Both the text of "The Code of Best Practice for WSE Listed Companies 2016" and information about the Bank's application of recommendations and principles described in that text are available on the Bank's website www.bosbank.pl in the "Investor Relations" section, where are also published the "corporate governance statements of BOŚ S.A." for the prior year.

In 2018, BOŚ S.A. complied with:

- the "Canon of Good Practice of the Financial Market", defined in Resolution No. 99/08 of the Polish Financial Supervision Authority of 18 March 2008;
- "The principles of good banking practice", adopted by Resolution of the General Meeting of Polish Banks, dated 18 April 2013.

In accordance with Resolution No. 218/2014 of the Polish Financial Supervision Authority dated 22 July 2014 "the Principles of Corporate Governance for Supervised Institutions" (the "Principles") were adopted for application by the Bank's bodies:

- The Management Board of BOŚ S.A. - by Resolution No. 108/2018 dated 8 May 2018 regarding adoption of the "Principles of corporate governance for supervised institutions" issued by The Polish Financial Supervision Authority
- The Supervisory Board of BOŚ S.A. - by Resolution No. 31 /2018 dated 16 May 2018 concerning the scope of application by The Supervisory Board of BOŚ S.A. regarding the „Principles of Corporate Governance for Supervised Institutions" issued by the Polish Financial Supervision Authority;
- The General Meeting of BOŚ S.A. - by its Resolution No. 28 /2018 dated 19 June 2018 regarding the „Principles of Corporate Governance for Supervised Institutions" issued by the Polish Financial Supervision Authority.

Information on approval for use by Bank Ochrony Środowiska S.A. of the "Principles of corporate governance for supervised institutions" issued by The Polish Financial Supervision Authority, was made available on the Bank's website, under the section Investor Relations.

1.2. Information on non-application of some corporate governance principles laid down in the "Code of Best Practice for WSE Listed Companies 2016" and in the „Principles of Corporate Governance for Supervised Institutions" issued by the Polish Financial Supervision Authority

BOŚ S.A. informed about not having applied the following corporate governance principles adopted under Resolution No. 26/1413/2015 of the Supervisory Board of WSE dated 13 October 2015:

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

Explanation: the principles of diversity policy applicable to employees (including key managers) are contained in the Labour Regulations of BOŚ S.A.; however, no such solution exists in relation to the company's governing bodies.

In accordance with item I.Z.1.15 of the "Best Practice for GPW Listed Companies 2016", explanation regarding BOŚ S.A.'s non-compliance with the principle I.Z.1.15 is published on the Bank's website www.bosbank.pl under "Investor Relations".

- IV.Z.2. If justified by the structure of shareholders, a Company should ensure publicly available real-time broadcasts of General Meetings.

Explanation: Rule IV.Z.2 is not applied by the Bank due to its shareholding structure as well as technical and organizational issues. In the Bank's opinion, the Bank's current rules on participation in general meetings enable its shareholders to successfully exercise all the rights attached to their shares and protect the interests of all shareholders. If, in the future, this form of shareholders' participation in general meetings becomes a widespread practice among listed companies, the Bank will consider applying this corporate governance rule.

In 2018, all "Principles of corporate governance for supervised institutions" issued by the Polish Financial Supervision Authority, except one, included in § 8.4, as follows: "A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the General Meeting".

The Bank performed an analysis on the possibility for the shareholders to participate in General Meetings through electronic means, at the example of the Ordinary General Meeting of the Bank in 2018. Bearing in mind the shareholding structure, as well as existing logistic and organizational issues, the Bank's Management Board maintained current position regarding withdrawal from application of the § 8 - 4 of the "Principles of Corporate Governance", the Bank does not ensure transmissions of General Meetings in real time, that would allow active participation of the Shareholders, they could express their opinions and vote independently of their presence at the venue of the meeting. Neither the Bank's Statutes, nor its Regulation on General Meetings do not include the possibility for the shareholders to participate in General Meetings, using electronic means of communication. If, in the future, this form of shareholders' participation in general meetings becomes a widespread practice among listed companies, the Bank's Management Board will consider applying this corporate governance rule.

The Bank ensures transparency of its information policy as applied to the General Meetings, by registering the sessions and storing the audio records on the Bank's website, in the section "General Meetings".

2. INTERNAL CONTROL

2.1. Description of the internal control and risk management systems used by BOŚ S.A. in the financial reporting process

Internal control system

In the Bank there is management system, adopted by resolutions of the Supervisory Board, which consists of the adequate and effective internal control system. Internal control system supports the Supervisory Board, the Internal Audit Committee, the Management Board and the Bank's employees in proper, effective and efficient performance of their duties.

It includes closely related multilateral management processes in all operating areas of the Bank's activity and is in a permanent and consistent manner integrated into the Bank's overall management system. Internal control system is adjusted to the organizational structure of BOŚ S.A. and applies to both its organizational units and subsidiaries.

The risk management and internal control systems in the Bank are organized at three independent levels:

- the first level is composed of the risk management in the operating activities of the Bank,
- the second level covers at least:
 - risk management by employees specially appointed or in organizational units, independently of risk management specified in item 1,
 - compliance unit operations.
- the third level covers the activities of the internal audit unit.

The three-level structure of internal control system in the Bank described above includes also:

- a control function realized at all three levels, in particular at the first level, i.e. within the operating activity of the Bank. A control function is designed to ensure observance of control mechanisms. The control involves positions, groups of people or organizational units responsible for performance of tasks assigned to that function.
- a compliance unit at the second level, beside risk management by the employees specially appointed to this end or in organizational units. A compliance unit designed to identify, assess, control and monitor such risks as lack of compliance with law, internal regulations and market standards as well as to report on these issues.
- An internal audit unit carrying out tasks at the third level. An internal audit unit designed to audit and assess in an independent and objective way, adequacy and effectiveness of the risk management system and internal control system, excluding the internal audit unit.

Efficiency of the internal control system depends on effectiveness of each of the above areas.

The control mechanisms implemented at the Bank are to limit the probability of materialization of risk, to identify and correct undesirable events and mitigate their effects.

The Bank has mechanisms ensuring independence of the internal audit unit and the compliance unit which have been described in the Management Board and Supervisory Board Resolution on the "Internal Control System in BOŚ S.A."

The Bank has an organizational unit that realizes function of non-compliance risk management, its tasks include in particular: development of non-compliance risk management policies and procedures, organization of non-compliance risk management system, compliance risk identification, assessment, control, monitoring and reporting as well as cooperation with entities of the Group in terms of non-compliance risk management and it is directly subordinated to the President of the Management Board.

The Bank has its internal audit unit, that assesses realization of the processes and contribute to improve them, especially business processes, management risk processes and managerial processes, as well as control mechanisms used to realize these processes. The internal audit unit i.a. regularly verifies the mechanisms used at the Bank and the related internal control procedures. The unit's tasks include objective and independent audit and assessment of adequacy and effectiveness of the internal control system and risk management system (except for the internal audit unit), for the Bank and its subsidiaries. The results of such verification and of performed audits are presented to the Management Board, the Internal Audit Committee and the Supervisory Board within the annual information regarding efficiency of the internal control system.

Internal audit, reporting directly to the President of the Management Board of the Bank, is an integral and independent element of the internal control system. The Internal Audit Committee is responsible for substantive supervision of the internal audit unit. The internal audit unit's tasks include objective and

independent audit and assessment of accuracy, adequacy and effectiveness of risk management system and the internal control system related to operations of the Bank and its subsidiaries.

When performing its tasks, the internal audit units complies with the law and internal regulations of the Bank, and relies on good practices described in the International Standards for the Professional Practice of Internal Auditing recommended by the Institute of Internal Auditors (IIA) as well as the IIA Code of Ethics.

3. SHAREHOLDING AND RIGHTS ATTACHED TO SHARES

3.1. Shareholders holding directly or indirectly (through subsidiaries) at least 5% of the total number of votes at General Meeting of the Bank

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

- National Fund for Environmental Protection and Water Management - has 53,951,960 shares, which represents 58.05% of the share capital and of the total number of votes at General Meeting,
- Investment Fund of Polish Enterprises Closed-End Fund for Non-Public Assets - owning 8,000,000 shares, which represents 8.61% of the share capital and of the total number of votes at General Meeting,
- General Direction of State Forests - owning 5,148,000 shares, which represents 5.54% of the share capital and of the total number of votes at General Meeting

The total number of shares and votes at General Meeting of BOŚ S.A. is 92,947,671. All shares are ordinary bearer shares with a nominal value of PLN 10.00 each.

3.2. Own shares

As at 31 December 2018 the Bank held 37,775 own shares, which represent 0.04% of the share capital and 0.04% of the total number of votes at General Meeting of the Bank, including:

- 33,095 shares, which the Bank acquired in 2012 as part of stabilisation activities related to the issue of series P shares. The above shares represent 0.04% of the Bank's share capital and of total number of votes at General Meeting of the Bank; however, in accordance with provisions of the Polish Code of Commercial Companies, Bank is not entitled to exercise the voting rights from these shares,
- 4,680 shares, which represent 0.01% of the share capital and the total number of votes at General Meeting of the Bank, which the Bank acquired during the period from 22 June to 6 July 2015, during the trading sessions on the main market of the Warsaw Stock Exchange S.A. The shares were acquired on the basis of Resolution 34/2015 of the General Meeting of BOŚ S.A. dated 10 June 2015 regarding share repurchase Program of BOŚ S.A., in order to offer them to Bank`s employees holding managerial positions and having a material impact on the risk profile of the Bank. Due to the existence of circumstances defined in Resolution of PFSA no. 258/2011, and variable remuneration components Policy concerning employees holding managerial positions at BOŚ S.A., the Supervisory Board decided not to grant members of the Management Board with variable remuneration for 2014, while variable remuneration for other employees holding managerial positions did not reach the threshold above which a part of the variable remuneration requires to be paid out in shares. As a result, shares acquired for this purpose were not allocated.

In accordance with provisions the Code of Commercial Companies, the Bank is not entitled to exercise the voting rights related to its own shares.

3.3. Information on contracts relating to future changes in the shareholding structure

The Bank is not aware of any contracts relating to future changes in the shareholding structure.

3.4. Holders of special control rights attached to securities

All shares of the Bank are equal and each share gives its holder the same right to dividends and to one vote at the general meeting.

3.5. Limitations as to exercising the voting rights and transferring the ownership of securities

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

3.6. Changes in the Bank's Statutes - principles

The Statutes may be amended by the General Shareholders' Meeting of the Bank. Resolutions regarding such amendments shall be adopted with the majority of 3/4 of votes cast.

3.7. General meeting, its main powers, shareholders' rights and their exercising

ways of convening, competences and operating principles regarding the General Meeting are defined in the Bank's Statutes and in the Regulations on General Meeting

- The General Meeting is convened in ordinary or extraordinary mode.
- Ordinary General Meetings are convened by the Bank's Management Board within six months from the end of the financial year.
- Supervisory Board is entitled to call an Ordinary General Meeting when it is not called by the Management Board within the time required by law.
- The following matters can be subject to the Ordinary General Meeting:
 - examining and approving the Management Board's report on the activities of the Bank and the financial statements for the previous financial year;
 - adopting resolutions on profit distribution/loss coverage;
 - giving the members of the Bank's bodies discharge for the performance of their duties.
- An Extraordinary General Meeting can be called as needed by the Management Board on its own initiative or at the request of the Supervisory Board or at the request of the shareholders representing at least one-twentieth of the share capital.
- The Supervisory Board, if it is considered necessary, is entitled to convene an Extraordinary General Meeting.
- Shareholders representing at least a half of the Bank's share capital or at least a half of the total number of votes are entitled to call an Extraordinary General Meeting. The President of the meeting is appointed by the shareholders.
- Shareholders representing at least 1/20 of the share capital of the Bank may request convening an extraordinary meeting and inclusion of specified issues on its agenda. Such a request has to be submitted in writing or in electronic form to the Management Board. The request to include specified issues on the agenda of the closest General Meeting has to be submitted at the latest 21 days before the proposed date of the General Meeting.
- The request to convene the General Meeting and to include specified issues on the agenda, submitted by the entitled bodies, is to be justified.
- In order to resign from discussing or to delete an issue from the agenda following a motion of the shareholders requires a resolution of the General Meeting adopted with the majority of 3/4ths of votes, at the consent of all motioning parties present at the general meeting.

In particular, the general meeting is responsible for:

- examining and approving the Management Board's report on the activities of the Bank and the financial statements;
- examining and approving the Management Board's report on the activities of the Bank's Capital Group and the consolidated financial statements of the Bank's Capital Group;
- adopting resolutions on profit distribution/loss coverage;
- examining and approving the Supervisory Board's report on its activities;
- giving the members of the Bank's bodies discharge for the performance of their duties;

- appointment and dismissal of Supervisory Board members;
- adoption of the policy regarding the candidates' for members of the Supervisory Board adequacy assessment,
- amending the Bank's Statutes;
- authorizing the Supervisory Board to prepare a consolidated version of the amended Statutes or to introduce important editorial changes in line with the General Meeting's resolution;
- adopting resolutions on share capital increase/reduction;
- adopting resolutions on issuing convertible bonds or bonds with the pre-emptive right;
- deciding on establishment or liquidation of the funds referred to in Article 36.1 of the Statutes;
- adopting resolutions on business combinations, disposals or winding up;
- selection of liquidators and setting their fees;
- setting rules for shaping remuneration of the Management Board and the Supervisory Members,
- determining remuneration of Supervisory Board members;
- adopting resolutions on other issues raised by the Management Board and the Supervisory Board or by the shareholders in line with the Code of Commercial Companies, the Banking Law and the Statutes.

Participation in General Meeting, validity of General Meeting, manner of adopting resolutions and voting:

- Shareholders are entitled to participate in General Meeting, personally or through their proxies.
- Power of attorney to participate in the General Meeting should be issued in writing or in electronic form and attached to the minutes of the General Meeting.
- The shareholder's declaration which is a part of an integral text document, allowing to identify the author of the statement is considered to be an electronic power of attorney granted by the shareholder.
- The shareholder is not entitled, neither personally nor by his proxy, to vote on adopting resolutions regarding his liability towards the company for any reason, including granting a discharge, waiving the liability to the company and a dispute between him and the Bank. However, such a Shareholder, acting as an attorney of another person, is entitled to vote on adopting resolutions regarding his person, concerning the matters mentioned above.
- Except for the cases determined in the Code of Commercial Companies or in the Bank Statutes, General Meetings are valid regardless of the number of represented shares.
- Resolutions are adopted by simple majority of votes, unless the Code of Commercial Companies or the Statutes of BOŚ S.A. set out stricter terms.
- Voting at the General Meeting is public.
- Secret ballot is ordered at elections and on motions to dismiss members of the Bank's bodies or liquidators, about being held liable, as well as about personal matters. Moreover, a secret ballot should be ordered upon request of at least one shareholder present or represented at the General Meeting.
- General Meeting is entitled to adopt resolution on waiving the secrecy of voting in matters regarding the election of a committee appointed by the General Meeting.

General Meetings are opened by the President, Deputy President or another member of the Supervisory Board. In their absence, General Meetings are opened by the President of the Management Board or another person designated by the Management Board. General Meeting appoints its President among persons entitled to participate in General Meetings. The minutes of the General Meeting are prepared according to provisions of the Code of Commercial Companies.

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

4. BANK'S GOVERNING BODIES

4.1. General Meeting of the Bank

The procedure of the general meeting, its main powers, shareholders' rights and their exercising are described in Section 3.7.

4.2. Bank's Supervisory Board

As at 31 December 2017, the Supervisory Board included as follows:

- 1) Wojciech Wardacki - Chairman of the Supervisory Board
- 2) Andrzej Matysiak- Vice-Chairman of the Supervisory Board,
- 3) Emil Ślązak - Secretary of the Supervisory Board
- 4) Janina Goss
- 5) Oskar Kowalewski
- 6) Paweł Mzyk
- 7) Piotr Sadownik
- 8) Marian Szołucha

In 2018, the following changes in composition of the Supervisory Board were introduced:

- 1) On 13 February 2018 Mr. Paweł Mzyk resigned from Membership of the Supervisory Board of BOŚ S.A.
- 2) On 13 February 2018 the General Meeting of Shareholders of BOŚ S.A. introduced the following changes in the composition of the Supervisory Board:
 - dismissed Mr Oskar Kowalewski from the Bank's Supervisory Board,
 - appointed the following persons: Mrs Iwona Beata Duda and Mr Dariusz Józef Wasilewski, as new members of the Bank's Supervisory Board.

As at 31 December 2018, the Supervisory Board included as follows:

- 1) Wojciech Piotr Wardacki - Chairman
- 2) Andrzej Grzegorz Matysiak - Vice-Chairman
- 3) Emil Stanisław Ślązak - Secretary

Members:

- 4) Iwona Beata Duda
- 5) Janina Kazimiera Goss
- 6) Piotr Sadownik
- 7) Marian Szołucha
- 8) Dariusz Józef Wasilewski

Until the date of the present information, the composition of the Bank's Management Board has not changed.

Operating rules of the Bank's Supervisory Board

Pursuant to the Statutes, the Supervisory Board consists of individuals appointed for the same term of office by the General Meeting. Their number is determined by the Supervisory Board, however it cannot be lower than 5 and higher than 11. The term of office for the Supervisory Board is of three years. The number of terms of office is not limited. The Supervisory Board appoints its Chairman, Vice-Chairman and secretary from among its members.

The members' terms of office expire as of the date of the General Meeting approving the Management report and the financial statements for the last full financial year during which the role of a member of the Supervisory Board was performed. The term of office of a member of the Supervisory Board also expires in the event of death, resignation or dismissal. Members of the Supervisory Board can be dismissed before the expiry of the term of office and replaced by other individuals. If a Supervisory Board member is dismissed, resigns or dies during the term of office, the Board may work until the vacancy is filled, provided that it has at least five members.

The Supervisory Board exercises ongoing supervision of all of the Bank's operations. The Supervisory Board performs its duties jointly but certain supervisory tasks may be delegated to its individual members.

In terms of supervisory authority, the Supervisory Board follows, while performing its operations, standards and procedures resulting from:

- corporate governance rules, specified in "Best Practice of the WSE Listed Companies" issued by The Warsaw Stock Exchange Supervisory Board S.A.
- "Principles of corporate governance for supervised institutions" issued by The Polish Financial Supervision Authority.

The Supervisory Board exercises a regular assessment of application by the Bank of the rules specified in 'Principles of corporate governance for supervised institutions' including independence criteria applied to the Supervisory Board members. The assessment is published on the Bank's website and shared with other bodies of the Bank.

In particular, the Supervisory Board is responsible for:

- approving the Bank's Actions Strategy and its annual financial plans;
- approving the general acceptable risk level defined by the Bank's Management Board, as well as Bank management strategies and risk management strategy, both adopted by the Bank's Management Board,
- approving the policy regarding internal capital assessment and capital management,
- approving the remuneration policy,
- approving the compliance policy of the Bank,
- approving the Bank's information policy;
- approving resolutions of the Management Board as regards Bank's organizational structure, with the proviso that according to the art.21-6 point 3 of the Bank's Statutes the competence to create and liquidate organizational units of the Bank is vested in the Management Board,
- notifying the Polish Financial Supervision Authority of the Management Board's composition and its changes promptly after appointment or dismissal of Board members, of the Management Board members responsible for, according the allocation of competences, risk management and internal audit unit,
- evaluation of the Management Board's report on the activities of the Bank and its financial statements for the previous financial year in terms of compliance with underlying accounting records and documents, as well as with consistency with the facts, motions of the Management Board regarding profit distribution or loss coverage, and submission of an annual written report presenting the evaluation results to the General Meeting,
- evaluation of the Management Board's report on the activities of the Bank's Capital Group and its consolidated financial statements for the previous financial year in terms of compliance with underlying accounting records, documents and consistency with the facts, as well as submission of an annual written report presenting the evaluation results to the General Meeting;
- setting the rules of employment/cooperation, including the rules of legal relations different than the employment relationship, for Members of the Bank's Management Board, r subject to Article10 point 15 of the Statutes,
- adoption of regulation on granting loans, cash loans, bank guarantees or sureties to Members of the Bank's governing bodies, its managers and other parties, specified in Article 79 of the Banking Law;
- adoption of resolutions approving granting loans, cash loans, bank guarantees or sureties to members of the Bank's governing bodies and other parties, as specified in Article 79a of the Banking Law;
- approval of applications submitted by the Bank's Management Board, regarding purchase of shares in companies with a nominal value exceeding, in addition to the already owned by the Bank shares and shares of these companies, the equivalent of 55% of the Bank's share capital, except shares of companies admitted to public trading;
- appointment of a statutory auditor to perform audit the financial statements and other experts;
- supervision of implementation of a management system at the Bank, consisting of a risk management system, internal control system and evaluation of these systems' adequacy and effectiveness;
- evaluation of periodic information about the banking risk level and the quality of this risk management;
- evaluation of periodic information on identified irregularities and findings of performed internal audits as well as measures implemented for their elimination/performance purposes;
- approval of the mode of establishing and terminating the employment relationship with the audit unit Director and the compliance unit Director, the mode to determine the remuneration of the audit unit director,
- adopting a policy for assessing the adequacy of candidates for Members of the Management Board and of Members of the Management Board, performing the assessment of adequacy of candidates for Members of the Management Board and of Members of the Management Board.

Moreover, the Supervisory Board is responsible for:

- Establishing the employment relationship with Members of the Management Board by concluding appropriate contracts. Supervisory Board is entitled to authorize its President to conclude such contracts - on the terms accepted each time by the Board,
- preparing the annual Supervisory Board report on its activity, with a short assessment of the Bank's

- situation (including assessment of internal control system and the risk management system significant for the Bank) - for the purpose of presenting it to the General Meeting for approval,
- handling and assessment of all significant information regarding the Bank's activities,
 - supervising the Bank's internal control system and its risk management system, as well as the financial reporting process, including:
 - appointing Internal Audit Committee, adopting regulation defining the Committee's organization, tasks and composition,
 - approving internal provisions of the Bank, especially regarding: internal control system's functioning at the Bank, activities of the risk management system at the Bank and activities related to the management of different types of banking risk,
 - handling and assessment of periodic reports presenting results of internal audits performed,
 - handling and assessment of periodic information on the internal control system's effectiveness,
 - handling and assessment of periodic reports on risk related to the activity performed and the manners to manage this type of risk,
 - handling and assessment of annual Management reports on the Bank's and its capital group activity,
 - handling and assessment of annual financial statements regarding the Bank and its capital group, as well as information from the auditor on performance and results of these financial statements audit,
 - appointing the Remuneration Committee, adopting regulation defining the Committee's organization, tasks and its composition,
 - appointing the Ecology Committee, adopting regulation defining the Committee's organization, tasks and its composition,
 - appointing the Risk Committee, adopting regulation defining the Committee's organization, tasks and its composition,
 - processing of applications from the Management Board regarding significant contract/transaction with a related entity to be concluded by the Bank, apart from typical transactions, concluded at arm's-length conditions, within its operational activities with a related entity, in which the Bank holds a majority equity interest,
 - preparing the annual work plan of the Supervisory Board,
 - supervising whether the Bank meets obligations resulting from the type of performed activities, mentioned in art. 70-2 of the Polish Financial Instruments Trading Act.

Supervisory Board meetings are convened by its President when necessary, at least quarterly. Members of the Supervisory Board are informed in writing of the date, venue and agenda of the planned meeting, at least seven days before the meeting date. They are also provided with all materials to be discussed. Motions regarding convening the Supervisory Board meeting may be filed with the President of the Supervisory Board by its members or by the Management Board of the Bank. In such cases, a meeting is convened by the President of the Supervisory Board within two weeks of the receipt of the aforesaid motion. At a justified request of a member of the Supervisory Board, the President of the Supervisory Board, also at his own initiative, the President of the Supervisory Board may convene an urgent meeting, setting the date, venue and agenda.

The Supervisory Board examines the issues put on the agenda and takes decisions in the form of resolutions. Resolutions of the Supervisory Board can be adopted if at least half of the members are present at the meeting, including its President or Vice-President, with all the members invited. Resolutions of the Supervisory Board concerning appointment and dismissal of the Management Board members are adopted with the majority of 2/3 of votes. Unless otherwise required by the law, other resolutions of the Supervisory Board are adopted with the simple majority of votes. If the number of votes is equal, the vote of the President is decisive.

Supervisory Board members may participate in adoption of resolutions (except for those regarding any personnel issues and matters added to the agenda during the meeting) by casting their votes in writing through another member of the Supervisory Board or through direct remote communication means.

In exceptional cases, the Supervisory Board may adopt resolutions outside meetings, by circular letter or using direct remote communication means. A resolution is valid if the draft has been presented to all members of the Supervisory Board, and at least half of them, including the President and deputy President cast their votes.

The first meeting of the Supervisory Board is convened by the President of the Management Board. The first meeting in the new term of office is held to constitute the Supervisory Board. Detailed information regarding the powers, procedure and roles of the Board has been provided in Sections 17-20 of the Bank's Articles of Association and the Rules of the Supervisory Board (available on the Bank's website: www.bosbank.pl in the Investor Relations section).

The Supervisory Board elects members of the Internal Audit Committee, the Remuneration Committee, the Ecology Committee and the Risk Committee from among its members. Members of the Supervisory Board may also be appointed as members of other committees.

The Bank has an Internal Audit Committee which has been appointed by way of a Supervisory Board resolution. Its main responsibilities include the direct supervision over the internal audit unit and monitoring of adequacy and effectiveness of internal control system, including internal audit unit and compliance unit.

The Internal Audit Committee ("IAC") is an opinion-giving body and supports the Supervisory Board in the area of Bank's management system, which means particularly internal control system as well as the financial reporting process and performing financial auditing activities.

During 2018, the Committee carried out the tasks provided for the Audit Committee, defined i.a. in:

- the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089) ("Act on Statutory Auditors"),
- the Statutes of Bank Ochrony Środowiska S.A.
- The Resolutions of the Bank's Supervisory Board.

Moreover, the Internal Audit Committee while performing its tasks, also follows indications included in:

- 1) "Recommendation H regarding internal control system in the banks" issued by the Polish Financial Supervision Authority in April 2017,
- 2) Regulation of the Minister for Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks.
- 3) Regulation (EU) No 537/2014 of the European Parliament and of the Council dated 16 April 2014 on specific requirements regarding statutory audit of public-interest entities,
- 4) "Good practices of companies listed on WSE 2016",
- 5) Recommendations and guidance of Polish Financial Supervision Authority regarding functioning of the Audit Committee,
- 6) Commission (EU) delegated Regulation 2017/565 dated 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive,
- 7) Financial Instruments Trading Act of 29 July 2005 (Journal of Laws 2017, item 1768 with further amendments) with implementing acts, and especially the Regulation of the Minister of Finance of 29 May 2018 on detailed technical and organizational conditions for investment companies and banks, referred to in art. 70-2 of the Financial Instruments Trading Act, and custodian banks (Journal of Laws 2018, item 1111).

Main tasks of the Internal Audit Committee include in particular:

- monitoring:
 - the financial reporting process,
 - the effectiveness of internal control systems and risk management systems and internal audit, including the Bank's financial reporting,
 - monitoring the performance of financial audit activities, in particular the conduct of audit by the audit firm, taking into consideration all conclusions and findings of the Audit Oversight Commission resulting from controls conducted in the audit firm,
- controlling and monitoring the independence of the statutory auditor and the audit firm, in particular if non-audit services are provided to the Bank by the audit firm,
- notifying the Supervisory Board of audit results and explaining in what way the audit contributed to the reliability of financial reporting in the Bank and what was the role of the Committee in the audit process,
- assessing the independence of the statutory auditor and giving consent to the provision of permitted non-audit services by the auditor.
- developing the policy of appointment of an audit firm to perform an audit,
- developing the policy of provision of permitted non-audit services by the audit firm in charge of audit, by related entities of this audit firm and by the audit firm network member,
- determining the procedure of appointment of an audit firm by the Bank,

- technical supervision of the activities of the internal audit unit, in particular an oversight over proper location of the internal audit unit in the Bank's organizational structure, while maintaining independence of its operations, in accordance with supervisory regulations.

Members of the Committee and changes occurred during the last financial year

Number of the Internal Audit Committee Members (IAC) during the reporting period in 2018 did not change and amounted to 4 persons. The function of the IAC Chairman was invariably fulfilled by the President of the Bank's Supervisory Board. Composition of the Internal Audit Committee (IAC) changed in 2018, as follows:

- 1) from 1 January 2018 to 20 February 2018, composition of IAC was as follows:
 - Wojciech Wardacki - Chairman of the Committee,
 - Oskar Kowalewski - Vice-Chairman of the Committee,
 - Emil Ślązak - Member of the Committee,
 - Marian Szolucha - Member of the Committee.
- 2) from 21 February 2018 to 31 December 2018, composition of IAC was as follows:
 - Wojciech Wardacki - Chairman of the Committee,
 - Iwona Duda - Vice-Chairman of the Committee,
 - Emil Ślązak - Member of the Committee,
 - Marian Szolucha - Member of the Committee.

The Bank's Supervisory Board at its meeting on 21 February 2018, by virtue of its resolution of the No 3/2018 appointed Mrs Iwona Duda as Vice-President of Internal Audit Committee, due to dismissal of Mr Oskar Kowalewski by virtue of Resolution No 6/2018 of BOŚ S.A General Meeting

The Internal Audit Committee meetings are held when necessary but not less than once a quarter. The President may convene an urgent meeting of the Committee. In 2018, 13 meeting of the Internal Audit Committee took place.

All the Members of Internal Audit Committee submitted a statement to the Bank, according to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089), informing about meeting by them:

- 1) requirements of independence,
- 2) knowledge and skills criteria regarding accounting and auditing the financial statements,
- 3) as well as knowledge and skills in banking area.

Risk Committee

On 7 January 2016 the Supervisory Board issued a resolution no. 9/2016, under which the Risk Committee was set up, composed of Members of the Bank's Supervisory Board. The Risk Committee supports the Supervisory Board in the area of risk supervision. The Risk Committee carries out duties provided by the Banking Law of 29 August 1997 (Journal of Laws of 2015.128, with subsequent amendments), in Bank's Statutes, and Supervisory Board Resolutions.

By realizing its main tasks, the Committee in particular:

- 1) issues a comprehensive opinion regarding current and future Bank's readiness to take risks, including:
 - to accept periodic reports / information of the Management Board regarding major events affecting the level of risk in the Bank and significant changes in the process and risk management system,
 - to accept periodic reports / information from the Management Board about the level of risk, increased exposure to a given risk, about how to identify and monitor risk and actions taken to reduce the risk;
- 2) issues an opinion related to risk management strategy of Bank activity prepared by the Management Board and information concerning implementation of that strategy submitted by the Management Board;
- 3) supports the Supervisory Board in overseeing the implementation of the risk management strategy of the Bank's activities by its executives;
- 4) verifies whether the price of assets and liabilities offered to customers fully reflects Bank's business model and its strategy in terms of risk. If such prices do not adequately reflect the risks in accordance with that model and strategy, the Committee presents proposals to the Management Board, aimed at ensuring price adequacy of assets and liabilities for these risks.

As at 31 December 2018 the Supervisory Board was composed as follows:

- Emil Ślązak – Chairman of the Committee,
- Marian Szolucha - Vice-Chairman of the Committee,

- Iwona Duda - Member of the Committee,
- Wojciech Wardacki – Member of the Committee.

Remuneration Committee

Remuneration Committee was appointed from among Members of the Supervisory Board in order to fulfil tasks defined for that Committee and specified in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks issued based on Article 9ca.1 and 2 of the Act of 29 August 1997 Banking Law and actions resulting from § 20.10 item 9 of the Statutes of Bank Ochrony Środowiska S.A., in particular covering:

- issuing opinions, laying down rules of remuneration of Members of the Management Board of Bank Ochrony Środowiska S.A.,
- giving opinion on and monitoring remuneration policy and supporting the Bank's bodies with respect to shaping and implementation of the Policy;
- giving opinion on the amount of variable remuneration of individuals holding managerial positions;
- giving opinion on and monitoring variable remuneration of individuals holding managerial positions at the Bank, responsible for risk management at the second level to the extent specified in § 3.3.1 of the Regulation, managing the compliance unit and managing internal audit unit.

The meetings of Remuneration Committee are convened according to the needs, but at least twice a year. During the reporting period, 5 Committee meetings were held.

In 2018 the composition of the Remuneration Committee was as follows:

From 1 January 2018 to 21 February 2018:

Piotr Sadownik – Chairman of the Committee,
Oskar Kowalewski - Vice-Chairman of the Committee,
Janina Goss - Committee Member.

From 21 February 2018 to 27 June 2018, composition of RC was as follows:

Piotr Sadownik – Chairman of the Committee,
Dariusz Wasilewski - Vice-Chairman of the Committee,
Janina Goss - Committee Member.

On 27 June 2018, the Supervisory Board broadened competences of Remuneration Committee, by appointing Remuneration and Nomination Committee.

Remuneration and Nomination Committee was appointed in order to fulfil tasks defined, among others, in:

- 1) the art.22 aa. of the Banking Act - in the scope of the policy applied to the adequacy assessment of candidates and members of: The Supervisory Board and the Management Board of the Bank,
- 2) Regulation of the Minister for Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital, as regards this Committee - in the field of remuneration policy,

in particular:

- 1) regarding the policy applied to the candidates for members of the Supervisory Board in terms of adequacy assessment and of Members of the Supervisory Board:
 - giving opinion on project regarding adequacy policy and on project regarding changes of this policy,
 - transmitting to the General Meeting the report on auditing gathered documentation and checking credibility in order to assess adequacy of a candidate for member of the Supervisory Board or for member a Member of the Supervisory Board,
 - presenting to the General Meeting a proposal of individual adequacy assessment of candidates for Members of Supervisory Board or of Members of Supervisory Board, as well as proposing collegiate adequacy assessment of the Supervisory Board,
 - transmitting feedback information to the assessed persons about performed assessment;
- 2) regarding the policy applied to the candidates for members of the Management Board in terms of adequacy assessment and assessment of Members of the Management Board:

- giving opinion on project regarding adequacy policy and on project regarding changes of this policy,
 - transmitting to the Supervisory Board the report on auditing gathered documentation and checking credibility in order to assess adequacy of a candidate for member of the Management Board or of the Management Board Member,
 - presenting to the Supervisory Board proposal of individual adequacy assessment of candidates for Members of Management Board or of Management Board Members, as well as proposing collegiate adequacy assessment of the Management Board,
 - transmitting feedback information to the assessed persons about the result of the assessment;
- 3) regarding the policy of adequacy assessment applied to candidates for the most important functions or to the persons performing such functions - giving opinion on project regarding adequacy assessment policy and on project regarding changes of this policy,
- 4) regarding remuneration policy - giving opinion on and monitoring remuneration policy applicable in the Bank and supporting the Bank's bodies with respect to shaping and implementing this policy;
- giving opinion regarding the list of persons that significantly impact the risk profile in the Bank, as well as its annual update,
 - designing remuneration for members of the Bank's Management Board, including the amount and the components of the variable remuneration, factors shaping variable remuneration and criteria applicable to the evaluation of work results and recommending them to the Supervisory Board,
 - recommending to the Supervisory Board the following: granting, limiting, suspending or refusing payment or realization of the variable remuneration to the Members of the Bank's Management Board,
 - giving opinion on the amount of variable remuneration of individuals holding managerial positions in the Bank, related to the risk management and compliance of the Bank's operations with law provisions and internal regulations,
 - giving opinion and monitoring variable remuneration of individuals holding managerial positions in the Bank, responsible for risk management at the first and second level other than indicated under letter d,
 - giving opinion regarding remuneration policy applicable in the BOŚ S.A Capital Group and giving opinion regarding the assessment of the related companies significant impact on the risk profile of the Bank.

Ecology Committee

Ecology Committee supports the Supervisory Board and the Management Board of the Bank in developing its pro-ecological activity. It is as well an opinion-forming body preparing recommendations for the Supervisory Board.

In 2018, the Ecology Committee had a following composition:

Andrzej Matysiak - Chairman of the Committee,

Paweł Mzyk - Vice Chairman of the Committee (from 1 January 2018 to 13 February 2018),

Dariusz Wasilewski - Vice Chairman of the Committee (from 13 February 2018 to 31 December 2018),

Janina Goss - Committee Member.

Subjects of recommendations prepared by the Ecology Committee for the Board were i.a. as follows: development directions for financing projects focused on environment protection, cooperation with shareholders, especially with NFOŚiGW and State Forests, co-participation of the State Program "Clean Air" [pol: "Czyste powietrze"].

The Committee meetings are convened by its Chairman when necessary. During 2018, 5 Committee meetings were held.

4.3. Management Board of the Bank

Information on changes in the composition of the Management Board in 2018

The composition of the Bank's Management Board as at 31 December 2018 was as follows:

- Bogusław Białowąs – President of the Management Board,
- Arkadiusz Garbarczyk – Vice-President of the Management Board,
- Dariusz Grylak - Vice-President of the Board,
- Anna Milewska - Vice-President of the Board.

On 21 February 2018 the Supervisory Board:

- entrusted to Mr Arkadiusz Garbarczyk the function of the Vice-President of the Board,
- dismissed Mrs Anna Milewska and Mr Mariusz Grylak from the Management Board,
- appointed Mr Konrad Raczkowski as a Member of the Management Board.

The composition of the Bank's Management Board as at 31 December 2018 was as follows:

- Bogusław Biały – President of the Management Board,
- Arkadiusz Garbarczyk – first deputy of the President of the Management Board,
- Konrad Raczkowski – Vice-President of the Management Board.

Until the date of this information, the composition of the Bank's Management Board has not changed.

4.4. Appointment and dismissal of members of the Bank's governing bodies

Principles regarding the powers, procedure and roles of the Board has been provided in Sections 21-23 of the Bank's Statutes (available on the Bank's website: www.bosbank.pl in the "Investor Relations" section).

In accordance with provisions of the Bank's Statutes, the Management Board is composed of at least three members being natural persons, including: the President, the First Deputy President and the remaining Deputy Chairmen or other members of the Management Board.

The Management Board handles the Bank's affairs and represents the Bank before third parties. Its decisions are taken collegially in the form of resolutions.

The Bank's Management Board adheres to the principles of corporate governance:

- specified in "Best Practice of the WSE Listed Companies" issued by the The Warsaw Stock Exchange S.A. Supervisory Board,
- specified in "Principles of corporate governance for supervised institutions" published by The Polish Financial Supervision Authority.

All exception from the above mentioned rules are communicated by the Management Board according to the procedures specified in the above mentioned documents.

Management Board Resolutions are adopted at meetings convened in accordance with the Rules of the Management Board. They are adopted with simple majority of votes. Resolutions may be adopted if all members of the Management Board have been informed about the meeting and at least half of them are present, including the President, or, in his/her absence, the First Deputy President or another member designated by the President. If the number of votes is equal, the vote of the President of the Management Board is decisive. If a member of the Management Board does not agree with an adopted resolution, his/her opinion to the contrary may be included in the minutes. However, he/she is not released from the obligation to comply with the resolution adopted by the Management Board. Members of the Management Board are not allowed to vote in matters that concern them personally, including where the Bank's interest is in conflict with that of the Management Board member, his/her spouse or persons related to him/her by blood or affinity. Minutes are taken during Management Board meetings.

Management Board meetings are convened by the President when necessary, at least twice a month. At a justified request of a Management Board member or at his/her own initiative, the President may convene an urgent meeting, setting its date, venue and agenda.

Meetings of the Management Board are attended by its members and individuals invited by the President. In justified cases, with consent of the President of the Board, members of the Management Board who are absent from the meeting may participate in the meeting or voting of resolutions via means enabling simultaneous real-time communication and mutual identification between Board members (videoconference / teleconference). During the meetings, the President of the Management Board presents the agenda for acceptance, chairs the meeting, gives the floor to speakers, decides on procedural issues, summarizes the discussion, drafts the resolutions and formulates recommendations and conclusions. In cases justified by business or legal and formal needs, a member of the Management Board may – at the consent of the President – present a topic not included in the agenda during the meeting.

In the event of expiry of the term of office regarding the Management Board President due to his/her death, resignation or dismissal, the First Deputy President whose appointment requires the consent of Polish Financial Supervision Authority acts as the President of the Management Board and manages the overall operations of the Bank until appointment of a new President.

In the absence of the Management Board President, the First Deputy President or another member of the Management Board designated by the President acts as the President and manages the Bank's overall operations (except for appointment and dismissal of the managing director, Head Office organizational unit heads and deputy heads as well as branch heads). Deputy Presidents or members of the Management Board exercise the supervision over the areas of the Bank's operations assigned to them, in line with internal division of competences defined by the Management Board and approved by the Supervisory Board and over Head Office organizational units grouped in specific areas, in line with the order of the President of the Board related to the scope of managing the Bank's operations by members of the Management Board.

5. CONFLICT OF INTEREST IN BOŚ S.A.

The Bank has regulations governing conflicts of interest management, including prevention thereof. Regulations of the Management and Supervisory Boards determine the rules for excluding members of these bodies from participating in the process of considering matters and taking decisions which involve a conflict of interests. In the event of an actual or potential occurrence of a potential conflict of interests, persons involved in such a situation are required to disclose it.

In addition, the Bank has internal regulations concerning the rules for accepting benefits or gifts which could affect impartiality and objectivity in taking decisions with regard to clients or entities cooperating with the Bank.

6. REMUNERATION POLICY IN BOŚ S.A.

6.1 Remuneration policy for persons with managerial positions in BOŚ S.A.

In order to meet requirements defined in the Regulation of the Minister of Development and Finance of 6 March 2017 on the system of risk management and internal control system, remuneration policy and detailed method of calculating internal capital in banks as well as in accordance with the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the Bank has implemented remuneration policy for managers approved by the Supervisory Board of BOŚ S.A.

The Remuneration Committee (and from 27 June 2018 - Remuneration and Nomination Committee) appointed by the Supervisory Board of the Bank evaluates remuneration Policy, gives opinion on and develops the principles of remuneration of the Management Board and gives opinion on and monitors the variable remuneration of employees occupying managerial positions in the Bank responsible for risk management at the second level, employees responsible for managing the compliance unit and internal audit unit.

The remuneration policy assumes, among others:

- The payment of minimum 50% of established variable remuneration for a given year in shares of Bank Ochrony Środowiska, which value is estimated as the weighted average price of shares of the Bank in trading sessions at Warsaw Stock Exchange in the period from 1 December of the year preceding the grant date to 31 January of the year of the grant date,

Shares shall mean:

- shares of Bank Ochrony Środowiska S.A. listed on the Warsaw Stock Exchange,
- phantom shares, at a value corresponding to the share price listed on the Warsaw Stock Exchange.

- deferral in payment of 40% of variable remuneration in the three equal annual instalments, with the proviso that at least 50% of each tranche is paid in shares of the Bank and the remaining part is paid in cash. The deferred part may be suspended, reduced or not paid nor realized at all, among others in situation when the Bank's results differ significantly from the approved financial plan for a given year, or when conditions specified in Article 142.1 of the Act - Banking Law have been met.
- assessment of the 3-year periods results, so that the amount of performance or result-based remuneration took into account the business cycle (trade cycle) of the Bank and the risk associated with this business. Results shall mean the results of the tasks in the area of effectiveness, finance, sale and individual goals set forth in the Bank's strategy or financial plan for the given year.

The maximum level of variable remuneration for each employee who occupies managerial position does not exceed 100% of fixed remuneration. The General Meeting of BOŚ S.A. Shareholders may agree to increase the maximum level of variable remuneration to 200% of fixed remuneration, in accordance with procedure provided in § 25.2 4), letter b) and c) of Regulation of the Minister of Development and Finance. Increase of the maximum level of variable remuneration specified in the proceeding sentence does not apply to the Bank's Management Board Members.

In 2018 – due to realizing the Program of Corporate Recovery of the Bank – in accordance with Article 142.1 of the Act – Banking Law, persons having an impact on the risk profile at the Bank (including to BOŚ S.A. Management Board Members) were not awarded with variable remuneration for 2017. . During the reporting period the variable remuneration for 2018 results has not been settled not granted yet.

6.2. Management options program and employee stock ownership program

The three-year motivation plan for the key members of managerial team in BOŚ Group, so called Management option program ("Program") has been launched in 2012 and concerned the following years: 2012, 2013 and 2014. The Program has been realized in 2013 only. The maturity date of the rights to acquire shares of Series S by the holders of Series B warrants expired on 31 December 2017. The Program has not been continued.

In 2018, there was no employee share Program in the Bank.

6.3. Remuneration and obligations regarding the key management personnel of BOŚ S.A.

Information on remuneration of BOŚ S.A. key management personnel in 2018 and any obligations of the Bank towards current and former management and supervisory personnel are presented in the Note 50 of BOŚ S.A. Annual Consolidated Financial Statements for the year ended 31 December 2018.

6.4. Contracts related to compensatory payments to members of executive bodies

Employment contracts with executives specified principles of awarding compensatory payments. The following provisions were in place:

- in the event of contract termination by the Bank for other reasons that the violation of basic obligations arising from the contract, in all cases payment of maximum 3 times fixed pay may be awarded, provided that the function is held for the period of at least 12 months before the contract termination; compensatory payment is granted by the Supervisory Board depending on the effort devoted, effectiveness and quality of services provided in the last 3 years when office was held and taking into account financial performance of the Bank and the supervised business line.

From 1 January 2018 to 21 February 2018, the above mentioned provisions were applicable to four Management Board Members, while from 21 February to 31 December 2018 to three Management Board Members.

- in exchange for refraining from engaging directly or indirectly into business competitive to the Bank's after stopping to perform the function, provided the function was performed for at least 3 months, compensatory payment was provided and payable on a monthly basis after stopping to perform the function in the amount of 50% of the fixed pay obtained directly before stopping to perform the function - for the period of 6 months.

From 1 January 2018 to 21 February 2018, the above mentioned provisions were applicable to four Management Board Members, while from 21 February to 31 December 2018 to three Management Board Members.

6.5. Statement of the Bank's share ownership by Members of the Bank's Management Board and Supervisory Board

Based on declarations provided by the members of the Bank's Management Board and Supervisory Board, no member of the Management Board and no member of the Supervisory Board had any Bank's shares or rights to shares as at 31 December 2018.